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ANNUAL REPORT OF
THE POSTMASTER GENERAL
1986



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FINANCIAL AND OPERATING HIGHLIGHTS

	Year Ended Sept. 30, 1986	Year Ended Sept. 30, 1985	Year Ended Sept. 30, 1984	Year Ended Sept. 30, 1983	Year Ended Sept. 30, 1982
Pieces of mail (millions)	147,376	140,098	131,545	119,381	114,049
Percent change	5.2	6.5	10.2	4.7	3.6
(dollars in millions)					
Operating revenue	\$30,102	\$27,736	\$25,314	\$23,582	\$22,600
Percent change	8.5	9.6	7.3	4.3	18.1
Public service appropriation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 12
Percent change	—	—	—	—100.0	—97.5
Revenue forgone appropriation	\$ 716	\$ 970	\$ 879	\$ 789	\$ 695
Percent change	—26.2	10.3	11.4	13.6	—12.0
Total appropriations	\$ 716	\$ 970	\$ 879	\$ 789	\$ 707
Percent change	—26.2	10.3	11.4	11.6	—44.6
Total operating expenses	\$30,717	\$29,207	\$26,357	\$24,083	\$22,826
Percent change	5.2	10.8	9.4	5.5	6.8
Net income (loss)	\$ 305	(\$ 251)	\$ 117	\$ 616	\$ 802
Percent change	—	—	—81.0	—23.1	—
Fixed assets (net of depreciation)	\$ 5,588	\$ 5,065	\$ 4,813	\$ 4,462	\$ 4,132
Percent change	10.3	5.2	7.9	8.0	3.4
Equity (deficiency)	\$ 362	\$ 58	\$ 311	\$ 112	(\$ 505)
Percent change	520	—81.2	178.0	—	61.3
(in units indicated)					
U.S. resident population January 1 (millions)	239.9	237.8	234.9	233.3	231.0
Percent change	0.9	1.2	0.7	1.0	1.0
Pieces of mail per capita	614	589	560	512	494
Percent change	4.2	5.2	9.4	3.6	2.6
Operating revenue per capita	\$ 125.46	\$ 116.64	\$ 107.77	\$ 101.08	\$ 97.83
Percent change	7.6	8.2	6.6	3.3	17.0
Accrued cost per piece of mail	20.84¢	20.85¢	20.04¢	20.17¢	20.01¢
Percent change	—	4.0	—0.6	0.8	3.1
Operating revenue per piece of mail	20.43¢	19.80¢	19.24¢	19.75¢	19.82¢
Percent change	3.2	2.9	—2.6	—0.4	14.1
Net income (loss) per piece of mail	0.21¢	(0.18¢)	0.09¢	0.52¢	0.70¢
Percent change	—	—	—82.7	—25.7	—
Employees	784,557	744,490	702,123	678,845	675,122
Percent change	5.4	6.0	3.4	0.6	0.7

*"We want you to leave every encounter with us feeling that you have conducted business
with a professional, responsive organization that has served you well."*

—Postmaster General Preston R. Tisch
Postal Forum XX September 8, 1986



Preston R. Tisch became the 68th Postmaster General of the United States on August 16, 1986.

TO THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE:

The best overall mail service in our history . . . rate stability that promises to last into 1988 . . . a major restructuring that moves the needs of the customer to the center of our activities . . . and signs of satisfaction from the public.

These were among the highlights of a year of transition in which the U.S. Postal Service began to change its thrust to that of a more customer-oriented, public business striving to provide a range of products and services that are effective for our customers and that are competitive where alternative forms of communications exist in our marketplace.

Pinpoint fiscal 1986 as the year the Postal Service put added emphasis on what customers need and want and on increasing flexibility while decreasing red tape.

Our 1986 success story begins with the fact that the American public received better mail service.

Despite a significant increase in the total volume of mail handled during the year, the Postal Service established delivery performance records in six of the nine categories of mail measured against established standards—and tied a seventh. All-time highs were established in Express Mail; overnight, second-day and third-day delivery of metered First-Class Mail; as well as both intra-Bulk Mail Center (BMC) and inter-BMC parcel post service. Stamped overnight First-Class Mail was delivered at a record-equaling 95.5 percent on-time pace.

Although not setting new records, delivery service performances for second-day and third-day stamped First-Class Mail surged to their highest levels since 1983. Four-week accounting period records were established in both categories as the year ended.

Better service was the product of better target-setting, monitoring, follow-up actions, updated operating plans and adjusted transportation. Many of the problems with the new air transportation contracting system, which we

encountered in 1985, were resolved. Several supplemental contracts were put in place which helped produce a number of service improvements including a precedent-setting on-time record for Express Mail of nearly 97 percent.

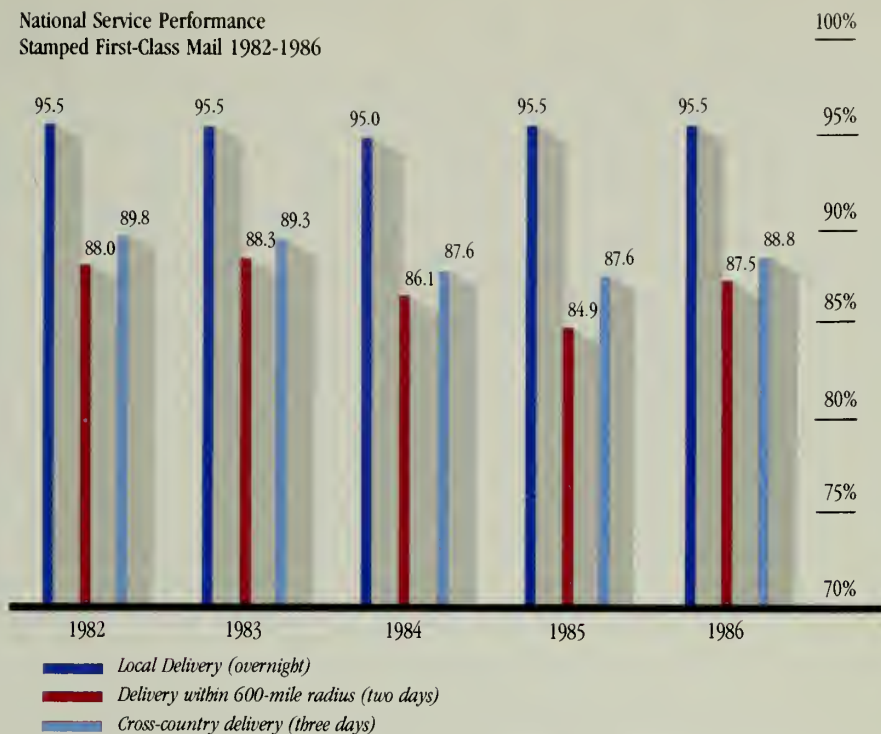
Financially, the Postal Service achieved a net income of \$305 million for the fiscal year, compared to a \$251 million deficit in 1985. The 1986 net figure represents about one percent of the postal budget and proves again that we can consistently meet the requirement of the Postal Reorganization Act that income "will equal as nearly as practicable" costs of the Postal Service and still maintain a reasonable degree of rate stability. We have been in the black five of the last 10 years with revenues exceeding expenses by \$97 million (a mere 0.0004 of our gross revenue).

Our net income was the product of many factors, including volume and revenue growth, continued attention to cost control, improved accountability for expenditures and the effects of moderate inflation. We used 34.3 percent fewer overtime hours and benefited from lower starting wage levels. Because of the new labor mix, the average straight-time hourly rate paid for craft employees and casuals was \$14.14—only eight cents higher than in 1985. If personnel costs had continued to rise at the rate experienced in 1985, expenses in this category would have been \$689 million higher. Fortunately they did not.

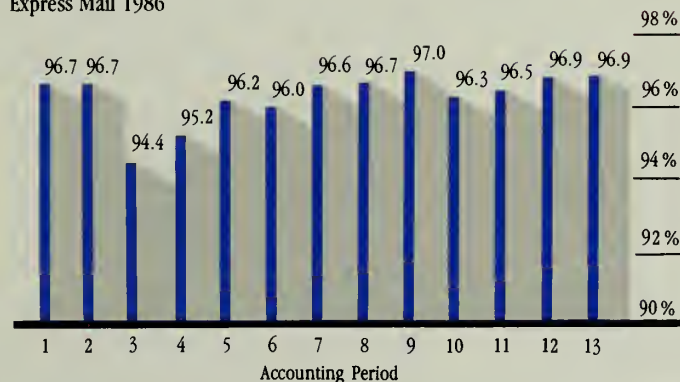
We are confident, as we move into a new fiscal year, that our customers can expect stable rates throughout 1987. There are, however, caution signs ahead. Legislation passed in 1986 will increase employee benefit costs substantially and will affect our financial outlook for 1987 and beyond.

The Federal Employees' Retirement System Act, for example, became effective January 1, 1987. This Act alone could cost the Postal Service more than \$400 million in fiscal year 1987 and more than an additional \$1.4 billion in fiscal year 1988. Other pending legislative proposals, such as eliminating revenue forgone appropriations but requiring the maintenance of preferred postage rates by spreading the costs to other rate categories would, if enacted, impose sizable additional financial burdens on the system.

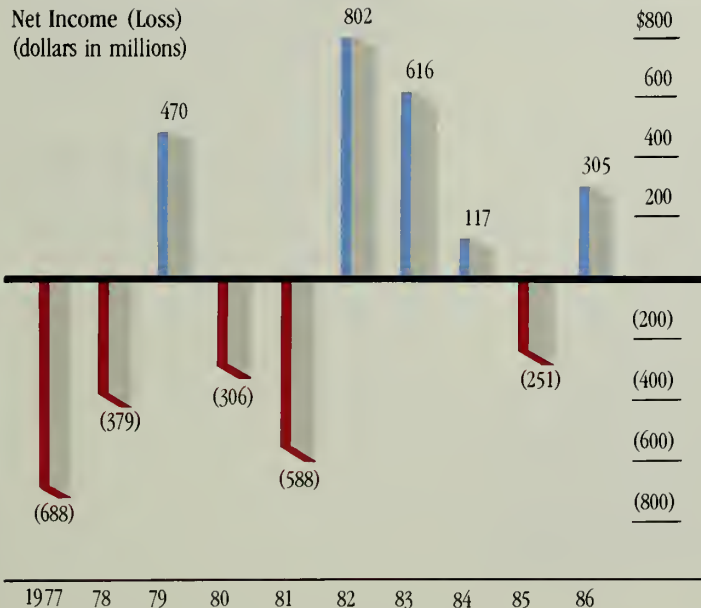
National Service Performance
Stamped First-Class Mail 1982-1986



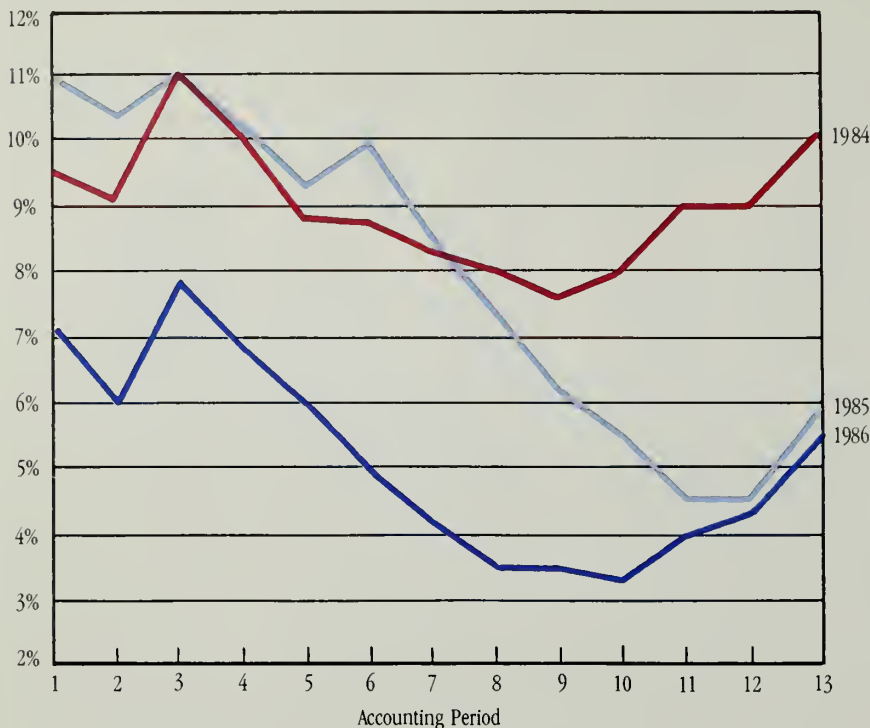
National Service Performance
Express Mail 1986



Net Income (Loss)
(dollars in millions)



Overtime as a Percent of Total Hours Worked



Mail volume has increased every year since 1975 and in 1986 reached 1474 billion pieces, an increase of 5.2 percent over fiscal year 1985.

Numbers, of course, tell only part of the fiscal 1986 success story. Another factor was the implementation of a major restructuring announced early in the calendar year.

Forty-two district offices were eliminated, our five regional management staffs were restructured and refocused and increased authority and responsibility for action were placed squarely in 74 new divisions to encourage more service improvements at the point of customer contact.

Continuing a program that had begun earlier, lobby window hours were adjusted for customer convenience in more than 3,000 offices nationwide. At the Northern Virginia Postal Facility at Merrifield, for example, window service is available until midnight on week-nights as well as all day on Saturdays and Sundays.

Other local innovations include the use of Express Mail acceptance vans as part of a series of Express Mail improvements, the sending of mobile postal units to convalescent homes, around-the-clock window service at several locations—including some major airports—and an all-purpose “stamp store” in Des Moines.

There seemed to be, too, an improvement in public perceptions about our service. An August 1986 Roper Report found that “considering cost and service,” 88 percent of those polled were satisfied with the mail service, compared to 85 percent a year earlier. In April, another Roper Report showed the Postal Service receiving the highest favorable rating, by far, among 12 federal agencies.

These surveys, taken prior to the launching of the management reorganization, have been followed by numerous customer compliments for our renewed commitment to service.

The bottom line is that we moved more mail and provided the public with better service in a year in which our structure was redefined and our top management responsibilities were directed by three different Postmasters General.

The year's performance proves the Postal Service is a vigorous institution. To help us remain so, technology is playing an ever-larger role in our business.

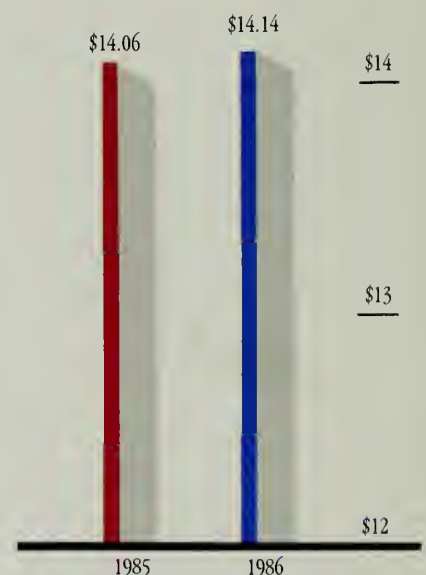
However, one phase of our automation program, the introduction of multiline optical character reader (OCR) technology, was significantly delayed because of the criminal activities of a former governor. As a result of his efforts to affect the outcome of our purchasing decisions, the Postal Service terminated competitive testing in this phase of its automation program. A new procurement will begin in 1987, but the delay will postpone field deployment of the equipment and deprive the Postal Service and its customers of significant savings and other benefits.

We are continuing to move forward with our automation programs based on ZIP + 4 coding, and we are taking a more flexible approach.

The employment of additional technologies such as multiline OCRs provides the opportunity to take a more flexible approach in the future. We believe this flexibility will permit us to pursue automation of postal operations without imposing just one solution on the mailing industry.

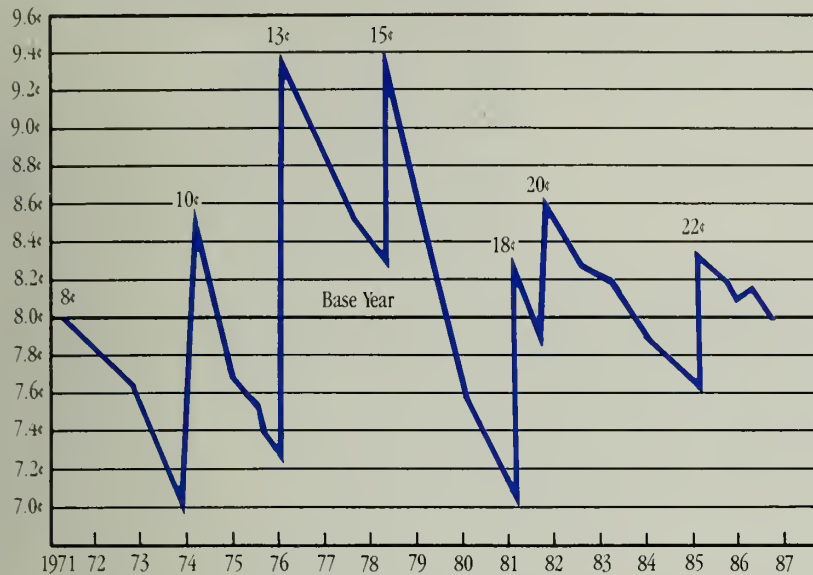
Clearly, customer applied OCR-readable ZIP + 4 codes are now and will continue to be of value in achieving our automation goals. Where they are a practical economical solution

Paid Hour Rate Comparison



Includes only straight-time salaries and benefits for craft and casual employees.

Real Cost of a First-Class Stamp Since Postal Service Reorganization*



*Price deflated by Consumer Price Index.

"... Increased competition and responsiveness to customer concerns through expanded hours and other changes are likely to make the service even better"

—Columbus (OH), Dispatch

"Since the reorganization of USPS we have noticed all key personnel are more accessible and channels of communication have improved considerably."

—Merrill Lynch Pierce Fenner & Smith, Inc.
New York, NY

"The post office's interest in its customers and its willingness to improve service are appreciated."

—Hays (KS), Daily News

for customers, we want to encourage their use and provide appropriate incentives. However, we recognize that for many, particularly smaller customers, this may not be the appropriate solution, and another approach to automation or a different mail preparation option may make more sense. As we move forward with automation planning, we hope to identify an expanded set of alternatives which consider both the effect on our customers' mail preparation costs—and needs—and postal operating costs.

We committed \$2.4 billion for capital investments during FY 1986 to modernize our facilities and vehicle fleet, to further automate mail distribution functions and to bring the latest state-of-the-art technology to our retail operations and information systems. These are investments in our future which will continue to yield significant dividends for many years to come.

Over the next five years, our capital investment is expected to reach an estimated \$11.7 billion.

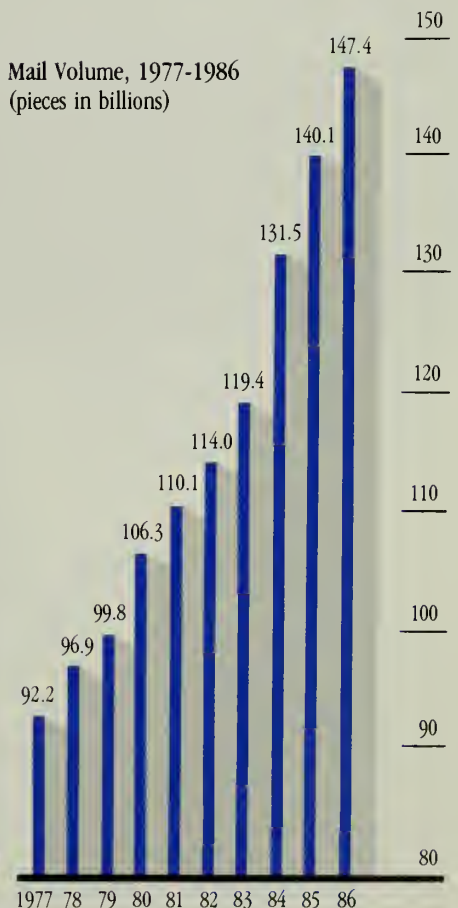
Our financial strategy, including a September borrowing of \$1.25 billion, is directed toward the long-term investment goals we have formulated as we seek to keep pace with volume growth and customer expectations for efficient and economical services.

Our performance in 1986 demonstrates the commitment of the Postal Service to improve, to attack its problems and to master the challenge of serving our customers. It is vitally important that the Postal Service achieve further improvements on all these fronts because of the financial challenges of 1987 and beyond.

Preston R. Tisch

Preston R. Tisch
Postmaster General
January 1987

Mail Volume, 1977-1986
(pieces in billions)



During the Christmas holidays, many post offices send mobile units, like this one in Philadelphia, to nursing homes, shopping and business centers, and industrial parks so customers can purchase stamps.



The Northern Virginia Management Sectional Center, shown above, was one of more than 3,000 post offices that extended its window and lobby service hours to serve customers better.



Lobby designs were tested in eight postal facilities to see which features appeared to please customers and employees most. The design used in the Detroit General Mail Facility offers indirect lighting, open counter areas, and blue, red and gray tones.

*"The Postal Service has always done great things in the past to help us,
but the new Postal Service is even better. There seems to be a strong service attitude
from the carriers to top officials. . . ."*

—ADVO, Cincinnati, OH

WE CARE

Caring about customer satisfaction and working to attain that satisfaction are the cornerstones of the Postal Service.

System-wide restructuring strengthened the effort in 1986 by elevating the marketing function to senior management level and providing, for the first time, marketing management at the local level.

To serve customers through the new division marketing organization, the Postal Service built the system around account representatives. These representatives were assigned specific customer accounts and were given additional support from two new service areas of local marketing—technical sales, and merchandising and sales promotion.

At the same time, division consumer affairs representatives were appointed to address the concerns of individual customers.

During fiscal 1986, the Postal Service introduced new lobby designs and developed procedures for converting successful design ideas into standards. New design guidelines are planned for the spring of 1987.

In order to further improve customer convenience, more than 20,000 stamp vending machines and related equipment were installed, including stamp booklet and coil stamp dispensers and coin changers. More than one million additional post office boxes also were installed. Over 17 million post office boxes are now available at locations across the country.

The Postal Service also added 3,300 computerized Integrated Retail Terminals (IRTs) in fiscal 1986. These are the window units that make vital information—such as weight, rates and service options—quickly available to employees and customers by means of visual display screens. The IRTs have helped shorten lines and brighten dispositions by reducing customer waiting time. There are now 8,000 such units in service and by late fiscal year 1987, 5,700 more will be deployed.

The greatest positive reaction from customers came in response to the introduction in April of an expanded Adjusted Window Hours Program wherever possible. Given the authority to fit the concept to local conditions, postmasters throughout the country made the most of the opportunity. And they accomplished the task at very little cost.

In response, the *San Antonio (TX) Express News* wrote: "Let's hear one for the U.S. Postal Service. . . . This new emphasis on customer service is a refreshing change from an agency that for far too long has seemed oblivious to its basic mission—serving the public."

In another editorial, the *Memphis Business Journal* added: "We wish the Postal Service well in its efforts to become more like a private business."

Postal caring was further evident in the return of several hundred World War II V-Mail letters discovered hidden in an attic and put in the hands of the post office 42 years after they were written. The Carrier Alert Program to keep an eye on the elderly was expanded. Letter carriers and management joined the Child Alert Program to aid the cause of finding missing children. For customers attempting to reach people inside the Soviet Union by mail, the Postal Service issued a special booklet outlining the best procedures to follow.



As the Postal Service turns more attention toward serving its customers, it is also encouraging more community involvement by its employees.

In addition to the Carrier Alert and Child Alert Programs, postal workers at all levels adopted local schools and tutored students as part of the Partnership In Education Program. Many others contributed voluntary time to community affairs projects, and contributions to the Combined Federal Campaign from the men and women of the Postal Service totaled more than \$19 million.

Of all the customer benefits offered by the Postal Service, none was more significant than the fact that, at 22 cents for a First-Class stamp, the United States still has the lowest domestic letter rate of all industrialized Western nations.

Our increasing concern for customer needs also was reflected in the areas of product and service improvements, where considerable progress was made.

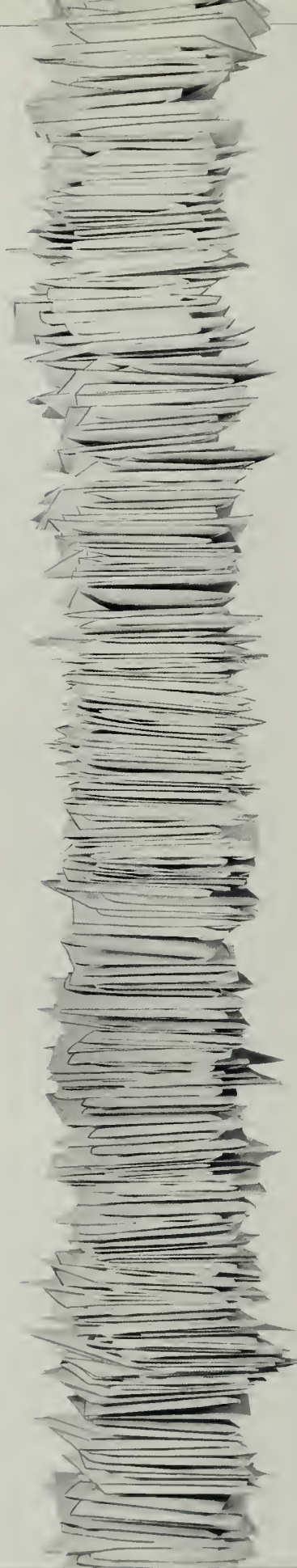
A new National Change of Address System (NCOAS), developed in collaboration with a number of large mailers, will provide customers with more accurate address information. Under the system, mailers using the services of one or more of 20 licensed vendors, can have their mailing lists updated and purged of undeliverable addresses and correct ZIP Codes added before the list is used for mailing.

Raul Alvarez (left) was one of the World War II veterans to whom the Postal Service returned V-Mail letters written during May 1944, but never mailed. The 235 letters were discovered in a North Carolina attic in June. Alvarez was an Army corporal when he wrote his sweetheart, Terry (right), whom he later married. The Postal Service has been able to return 206 of the letters to the writers or their families.



10,000 Express Mail collection boxes were installed around the country in 1986 so customers have easy access to the Postal Service's expedited mail service.

The Postal Service processes enough undeliverable-as-addressed mail to create a stack more than 3,000 miles high!



In May 1986, the Postal Service implemented a strategic plan to improve service for bulk business mail—and it is working. Among its accomplishments was a 66 percent reduction in average waiting time for unloading trailers: The average waiting time was cut from 12-13 hours to four hours.

International mail volume declined by four percent from fiscal year 1985 due to intense competition characterized by the "re-mailing" of U.S. originating mail into foreign mail-streams by private companies. The Postal Service moved to enhance its ability to serve international customers by creating a market development division, working more closely with major U.S. bulk mailers and initiating, in May, a new International Priority Airmail Service to meet a need for faster and more affordable delivery of larger volumes of mail. By the end of the fiscal year, International Priority Airmail had nearly doubled expectations with over 110 customers and \$500,000 in revenue.

Nine countries were added to the Express Mail International Service network. Miami was opened for International Surface Airlift, and the I-SAL network was extended to include the Far East, Latin America and the Caribbean.

One disquieting note developed when, for the first time, Express Mail volume lost ground, dropping by 8.7 percent to 40.1 million pieces, in the face of ever-increasing competition. The Postal Service moved aggressively to stop the decline and to make Express Mail service more competitive.



In less time than it takes to sneeze—approximately one second—the Postal Service processes as many as 5,000 pieces of mail. All that mail—more than 400 million pieces each day—enters a network of nearly 40,000 post offices, stations and branches, reaching more than 100 million delivery points throughout the country.

An Express Mail morning delivery program was implemented in 30 cities across the country, and the amount of Express Mail delivered by noon was increased at least 10 percent in each area.

A new Express Mail letter envelope was also introduced, and 10,000 Express Mail collection boxes were placed on the nation's street corners.

Additional improvements are being explored. The Postal Service began testing the use of credit cards in five major markets as a method of payment for Express Mail postage. Mobile Express Mail acceptance units underwent expanded testing, and a tracking system, using window automation equipment to capture Express Mail shipment data at the point of acceptance, was tested in Boston, Los Angeles and San Diego.

In the field of philately, the Postal Service released 37 stamp and stationery issues during the year. It received \$158.3 million in gross revenue from stamp collectors, an increase of 28 percent over the previous year.

A quality enhancement and cost reduction program reduced fiscal year 1986 production costs by \$5 million while simultaneously increasing the quality of philatelic products. Improvements during 1987 will result in the expenditure of two million fewer dollars to produce some two billion more stamps.

The Postal Service also put considerable energy into protecting the postal system and its customers. In its efforts to maintain the integrity of the system and prevent the public from being victimized by fraudulent schemes, the Postal Inspection Service conducted 1,928 fraud investigations in 1986 and obtained 1,131 convictions.

The Inspection Service has also directed concerted efforts to heighten public awareness of various mail fraud schemes. Furthermore, it is cooperating with the Food and Drug Administration and the Federal Trade Commission to prevent and investigate a variety of health frauds which target all elements of the American public, especially the elderly.

In addition, cease and desist orders were issued against 607 individuals and companies found to be misrepresenting their products and services.

Postal Inspectors also investigated 622 burglaries and 126 robberies committed by persons intent upon attacking the security and sanctity of the mail. The inspectors, in an investigation still underway, also uncovered the illegal activities of a postal governor—who has since resigned, pleaded guilty to all charges and been imprisoned.

The Postal Service installed 3,300 Integrated Retail Terminals in 1986, bringing the total to 8,000 throughout the country. These computerized terminals provide fast, accurate information on weight, rates and service options to postal clerks and customers.



Selected Foreign Postal Rates Compared with United States Rate

Country	Rate for first unit of domestic letter postage (national currency)	Postage converted to U.S. cents*
1. Italy	550.00 Lira	39.7
2. Federal Republic of Germany	.80 Mark	39.5
3. Japan	60.00 Yen	38.9
4. Austria	5.00 Shilling	38.6
5. Norway	2.50 Krona	33.9
6. France	2.20 Franc	33.2
7. Netherlands	.70 Guilder	30.6
8. Sweden	2.10 Krona	30.4
9. Switzerland	.50 S. Franc	30.3
10. Belgium	12.00 B. Franc	28.6
11. United Kingdom	.17 Pound	24.6
12. Canada	.34 C\$	24.5
13. Australia	.36 A\$	22.6
14. U.S.A.	.22 US\$	22.0

*Foreign exchange rates prevailing on September 30, 1986 The Wall Street Journal, October 1, 1986.

"When the USPS replaced the debt-ridden Post Office Department in 1971, it was given a \$920 million annual subsidy and 14 years to become self-supporting. The [Postal Service] has lived up to its mandate, it's an experiment worth repeating."

—Houston Post

TECHNOLOGY AND MODERNIZATION

Technology and modernization are vital elements in the future success of the Postal Service.

More and better automated and mechanized equipment helped improve efficiency and productivity this past year. Meanwhile, postal management is pursuing new applications of technology so that customers' growing needs can be met in the decades ahead.

Despite the delay in the planned procurement of multiline Optical Character Readers (OCRs), the automation of mail processing continued to accelerate in fiscal year 1986.

The Postal Service has accepted 106 second-generation OCRs at 57 locations and 71 new Bar Code Sorters (BCSs), which are operating at 46 sites. Acceptance tests on this equipment indicate performance is exceeding contract-required standards by about seven percent. Under Phase 1 of the program, 252 OCRs and 248 smaller BCSs had been purchased.

Delivery of the improved Phase II OCRs will continue at the pace of a dozen per month through late 1988 until 403 are deployed. These machines are being used to process letters and cards bearing either mailer-applied 5-digit or ZIP + 4 codes. In just four years, the volume of mail processed by automated equipment has risen from zero to 20 percent while the mail sorted by the older, mechanized equipment has dropped from 67 to 57 percent. Manual sorting has declined from 33 to 23 percent in the same period.

This notable progress is supported by over 2,000 firms that used ZIP + 4 codes on 10.7 billion pieces of letter mail in fiscal year 1986, compared to 6.2 billion pieces in 1985.

In 1987, a new procurement of multiline OCR equipment will be initiated. In the

interim, additional multi-position letter sorting machines are being purchased.

In another area of mechanization, there are currently 245 flat-sorting machines in 123 facilities each processing an average of 1,000 flats per work hour, compared to a manual rate of 600 per work hour. Contracts have been awarded for 176 more flat sorters.

Additionally, 100 small parcel and bundle sorters are being purchased to mechanize some labor intensive operations.

Modification kits to improve letter canceling machines and a simple machine to provide mechanized canceling capability for large envelope flat mail are being developed.

Procurement of automated and other modern equipment for retail and vehicle operations is continuing, and many segments of business systems and records-keeping have been automated.

The Postal Service has contracted for two major truck purchases. One is for nearly 100,000 lightweight, long-life delivery vans

that have twice the load capacity of many of our traditional delivery vehicles, and three times the current chassis life expectancy. The other is for nearly 4,000 two-ton vans that double the fuel economy, carry more cargo and cost less than their present counterparts.

System modernization is not limited to equipment. The Procurement and Supply Department has three major programs designed to simplify and speed buying, get feedback for better decisions and increase the overall level of its professionalism.

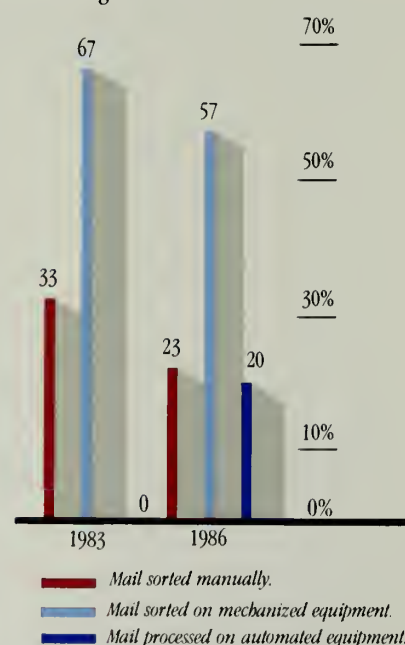
Competition, planning and developing a simpler procurement system are being emphasized.

An automated system is being developed to integrate information on purchasing and supply—and to make this information available to management in a way and to a degree never before possible.

A massive training effort for buyers and materials management people at every level is being prepared. Currently, five courses are being offered, with more in development. These courses will emphasize improving the business of buying and include special topics such as fraud detection, which is being taught by the Inspection Service. Taken together, the courses are focused on improving procurement and supply to make these important Postal Service functions more effective and efficient.

New upgraded and enlarged postal facilities are an integral part of postal modernization as well. A dozen major building projects, ranging in cost from \$10.1 million to \$89.9 million, were completed in fiscal year 1986—headed by the Washington, DC general mail facility—which was opened nearly two years ahead of schedule at a cost of about \$4 million less than projected.

Comparison of Mail Processing Mix





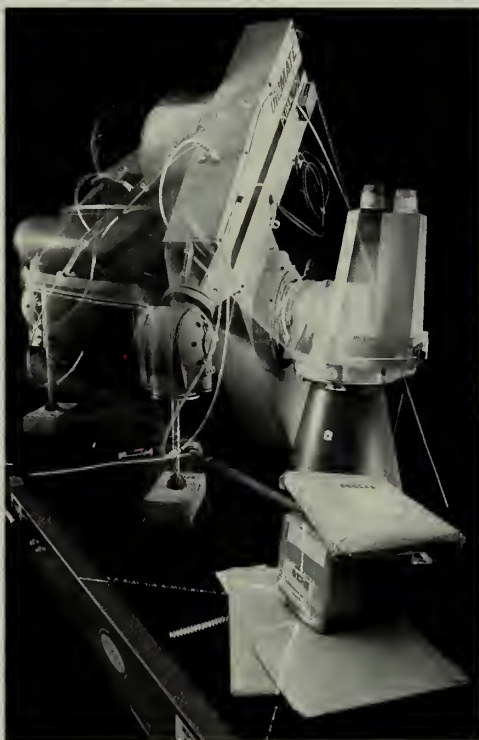
This accomplishment was possible because the site, design and construction were provided under a single contract—a new concept that may be used for some of the most complex facilities in the future.

Another 173 postal-owned facilities were completed nationwide.

Since the Postal Service's Advanced Research Program was launched in 1983, a concerted effort has been made to use technology for overall service improvement. Research on handling an increasing mail volume by machine has yielded considerable progress.

Currently, the further use of technology in mail preparation is being studied. Other projects are aimed at recognizing address locations on odd-sized mail pieces and developing automated methods of feeding, transporting, diverting and sorting a wide variety of non-machineable mail.

The Postal Service is committed to making technological advances that will enable it to maintain and improve its position in the marketplace. This was demonstrated by its sponsorship of an international Advanced Technology Conference during which more than 200 noted scientists and engineers discussed new and emerging developments. These included artificial intelligence, vision systems, optical character recognition, robotics and other advanced applications of technology to mail processing and distribution.



Work in adaptive robotics was one of 33 research projects conducted by the Postal Service's Office of Advanced Technology during 1986. In five to 10 years, the technology shown in the multiple exposure above may be used to sort small parcels and rolls and, possibly, to unload trucks.

Each of the three optical character readers in Washington, D.C.'s general mail facility can sort 30,000-40,000 letters per hour. They are part of the Postal Service's automation program, designed to speed operations and improve service. Use of the ZIP + 4 code makes these readers even more efficient.



In April 1986, the Postal Service awarded a contract to purchase nearly 100,000 light-weight delivery vans with a 24-year life expectancy. The vans carry a larger load than traditional vehicles and will begin to appear on the streets in 1987.

*"It is high time to say a few kind words about the Postal Service.
There are something like 800,000 Americans who rise each morning or at nightfall to move the mail.
Generally they do a commendable job, with courtesy, dedication, and efficiency."*

—Mullins (SC) Enterprise

POSTAL PEOPLE

Because of the increased emphasis placed on improved customer relations by the Postal Service, postal employees are being called on to demonstrate their human relations skills as never before.

Early indications are encouraging. Our field personnel are responding to the greater freedom and flexibility built into the reorganization with ideas and programs that benefit their customers.

If the Postal Service is to successfully meet the challenges of the future, it must strive for better teamwork and harmony from within. The expanding Employee Involvement/Quality of Working Life process is helping achieve that goal by offering increased organizational effectiveness through greater participation in workplace decisions.

Barely four years old, the Employee Involvement process has now grown to 3,500 work teams and quality circles in 3,000 facilities nationwide. Participants include the National Association of Letter Carriers, the National Rural Letter Carriers' Association, the National Post Office Mail Handlers union and postal management.

Employee Involvement, based on work teams composed of both craft and supervisory personnel, is intended to change attitudes and foster helpful ideas in the work-place. In addition, by the end of fiscal year 1986, it had produced measurable local improvements in customer service, safety and operations.

The Postal Service also continued to make progress in its Affirmative Action/Equal Employment Opportunity Program.

The total postal work force included 30.5 percent minority employees by the end of fiscal 1986 compared to 29.6 percent in 1985.

Female employees reached 30 percent of the work force compared to 28.5 percent in 1985.

Representation by minorities in level 15 and above, which includes supervisory and management positions, increased from 24.8 percent in 1985 to 25.7 percent in 1986.

Representation by female employees in level 15 and above increased from 20 percent to 21.7 percent.

Almost 25 percent of newly appointed postal career executives were female and minority employees.

Fiscal year 1986 marked the fourth consecutive year the Postal Service exceeded its goal for the hiring of handicapped individuals. Dur-

Donna Meade, postmaster of Bowlegs, Oklahoma, was the Postal Service's Outstanding Handicapped Employee of 1986. A hit-and-run accident in 1983 left her a quadriplegic but did not diminish her determination to succeed in her postal career.



ing the year, 6,453 handicapped individuals were hired, bringing the total number to 29,921, which is four percent of the entire work force.

A primary focus of affirmative action was to stress postal managers' responsibilities for career counseling and to emphasize career development for employees.

The Postal Service spent \$70 million in fiscal 1986 for all types of training. This does not include salary related costs of those receiving training or of the local training staff. More than 14 million training hours were provided. Approximately 80 percent of that training was conducted in field installations throughout the country, with the percentage expected to increase as training requirements grow and efforts to decentralize continue.

In the field of rehabilitation, the Postal Service continued its efforts to expand the Employee Assistance Program (EAP) to assist employees who have drug- and alcohol-related problems. Approximately 12,500 individuals participated. Since EAP and its predecessor, the Program for Alcoholic Recovery began, 62,500 people have participated in our rehabilitation programs.

In general, the Postal Service also made progress toward improving its safety record in 1986. The total accident rate per 200,000 workhours was reduced to 7.8 from 8.2 the previous year. The number of lost workday cases due to injuries was trimmed to 2.6 per 200,000 workhours from 2.9.

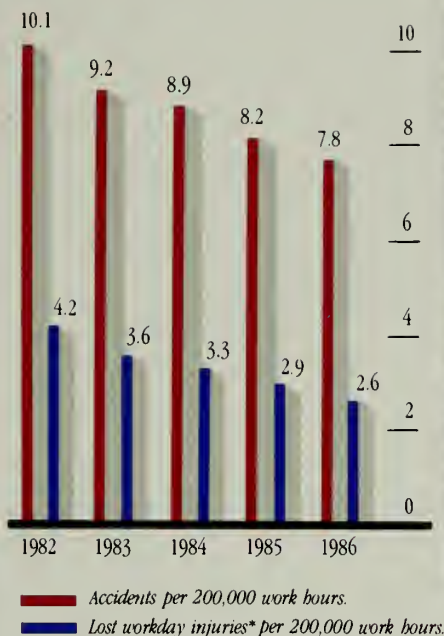
To achieve the favorable results, the Postal Service involved supervisors more deeply and held them accountable for emphasizing training, especially for new employees and those who had recurring accidents.

However, much is still to be done. Motor vehicle accidents increased from 5.1 per million miles driven in fiscal year 1985 to 5.5 in 1986, a level which is not acceptable.

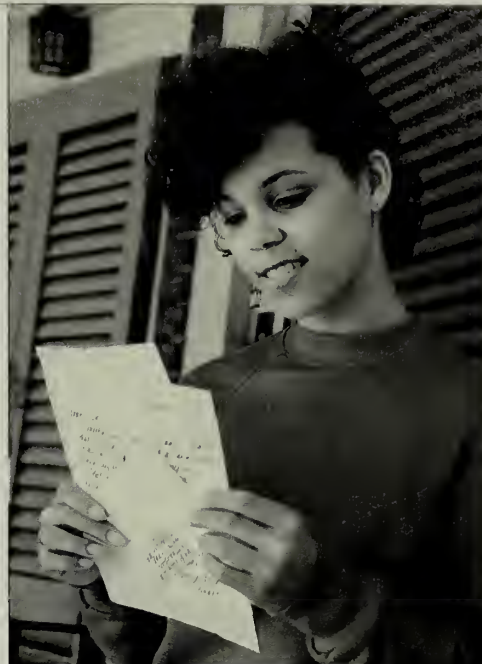
To counter the adverse trend in vehicle accidents, the Postal Service took several steps. Driver selection and testing procedures were changed, an improved driver observation program was implemented, and a seat belt use incentive program was instituted.

Finally, fiscal year 1986 saw the beginning of the final year of current major labor agreements. When negotiations for new agreements begin in 1987, management will be seeking a contract which is fair to employees, fair to the Postal Service and fair to customers.

Safety Performance, 1982-1986

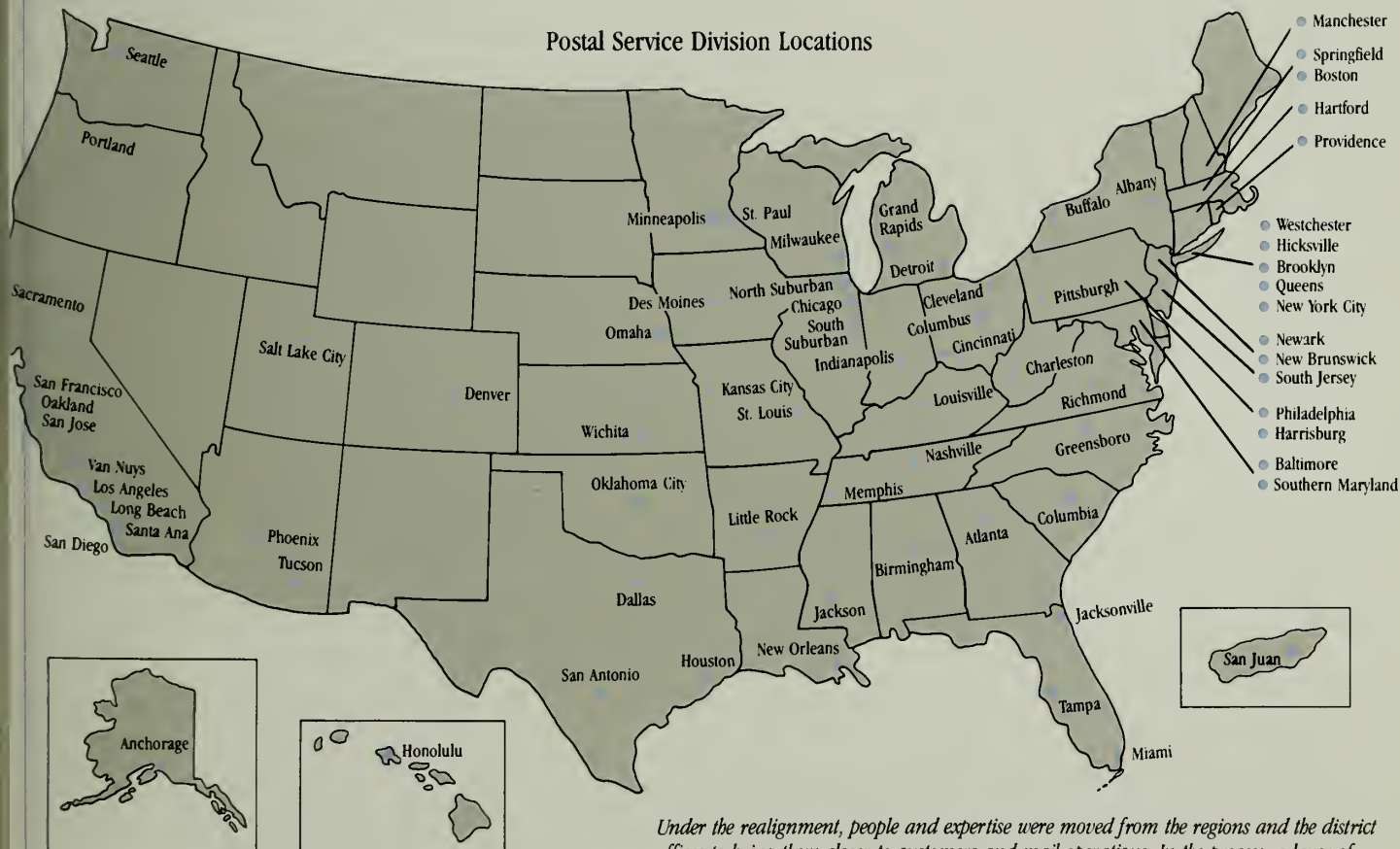


*A lost workday injury is one which results in time away from work beyond the date of injury.



Although about 94 percent of all mail is business-oriented, the Postal Service has never lost sight of the importance of social correspondence. Cards and letters remain an essential part of its franchise to bind the nation together.

Postal Service Division Locations



Under the realignment, people and expertise were moved from the regions and the district offices to bring them closer to customers and mail operations. In the process, a layer of management was removed by abolishing the 42 districts. The divisions were established in 74 of the largest mail processing facilities in the country and received greater authority for making day-to-day operating decisions within the parameters of established postal policies.

FINANCIAL STATEMENTS

BALANCE SHEETS

UNITED STATES POSTAL SERVICE

Sept. 30, 1986

Sept. 30, 1985

Assets	(dollars in thousands)	
Current assets		
Cash	\$ 128,863	\$ 274,274
U.S. Government securities, at amortized cost which approximates market	3,823,227	2,369,701
Receivables		
U.S. Government	200,066	161,341
Foreign countries	269,747	197,332
Accrued interest	17,207	25,792
Other	<u>79,447</u>	<u>56,662</u>
	566,467	441,127
Less allowances	<u>23,739</u>	<u>20,769</u>
	542,728	420,358
Supplies, advances and prepayments	<u>163,702</u>	<u>170,408</u>
Total current assets	4,658,520	3,234,741
Other assets—Note 4	19,377	20,196
Property and equipment, at cost—Note 4		
Land	687,323	594,065
Buildings	4,682,636	4,223,712
Equipment	<u>2,992,949</u>	<u>3,004,289</u>
	8,362,908	7,822,066
Less allowances for depreciation	<u>2,774,448</u>	<u>2,757,425</u>
	5,588,460	5,064,641
Construction in progress	1,359,508	1,055,327
Leasehold improvements, net of amortization	<u>145,270</u>	<u>113,719</u>
	7,093,238	6,233,687
Deferred retirement costs—Note 3	<u>18,043,047</u>	<u>17,571,593</u>
	<u>\$29,814,182</u>	<u>\$27,060,217</u>

See notes to financial statements.

Sept. 30, 1986

Sept. 30, 1985

Liabilities and equity

(dollars in thousands)

Current liabilities

Outstanding postal money orders	\$ 360,587	\$ 302,310
Compensation and employees' benefits	1,768,690	1,638,604
Amounts payable to other U.S. Government agencies	106,262	101,232
Other accounts payable and accrued expenses	835,856	659,132
Deferred revenue	614,276	564,815
Estimated prepaid postage	1,019,000	954,000
Current portion of long-term debt	<u>141,800</u>	<u>91,800</u>
Total current liabilities	4,846,471	4,311,893

Long-term debt, less current portion—Note 4	3,092,649	1,983,263
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Other liabilities

Amounts payable for retirement benefits—Note 3	17,630,261	17,134,576
Employees' accumulated leave	814,933	776,121
Workers' Compensation claims	3,048,000	2,776,000
Other	<u>20,000</u>	<u>20,000</u>
	21,513,194	20,706,697

Commitments and contingencies—Notes 3, 5 and 6

Equity

Capital contributions of the U.S. Government	3,041,206	3,042,310
Deficit from operations since commencement on July 1, 1971	(2,679,338)	(2,983,946)
	<u>361,868</u>	<u>58,364</u>
	<u>\$29,814,182</u>	<u>\$27,060,217</u>

See notes to financial statements.

STATEMENTS OF OPERATIONS AND CHANGES IN EQUITY
UNITED STATES POSTAL SERVICE

Year Ended
Sept. 30, 1986

Year Ended
Sept. 30, 1985

(dollars in thousands)

Operating revenue	\$30,102,091	\$27,736,071
Appropriations for revenue forgone for certain classes of mail—Note 2	<u>715,836</u>	<u>969,620</u>
	30,817,927	28,705,691
Operating expenses		
Compensation and employees' benefits	25,575,894	24,349,087
Other.	<u>5,140,701</u>	<u>4,858,114</u>
	<u>30,716,595</u>	<u>29,207,201</u>
Income (loss) from operations	101,332	(501,510)
Interest income	<u>316,838</u>	<u>309,870</u>
	418,170	(191,640)
Interest expense	<u>113,562</u>	<u>59,840</u>
Net income (loss)	304,608	(251,480)
Equity—beginning of year.	58,364	310,739
Capital equipment transferred to U.S. Government	(1,104)	(895)
Equity—end of year.	<u>\$ 361,868</u>	<u>\$ 58,364</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
UNITED STATES POSTAL SERVICE

Year Ended
Sept. 30, 1986

Year Ended
Sept. 30, 1985

Sources of working capital

(dollars in thousands)

From operations

Net income (loss)	\$ 304,608	(\$ 251,480)
Charges to operations not requiring outlays of working capital		
Amortization of deferred retirement costs	474,477	714,805
Depreciation and amortization	387,409	372,167
Provision for noncurrent Workers' Compensation claims	272,000	113,000
Increase in employees' accumulated leave	<u>38,812</u>	<u>41,564</u>
Total sources from operations	1,477,306	990,056
Increase in noncurrent amounts payable for retirement benefits	495,685	4,771,374
Increase in long-term debt	<u>1,250,000</u>	<u>970,000</u>
Total sources	3,222,991	6,731,430

Uses of working capital

Additions to deferred retirement costs	945,931	5,688,672
Additions to property and equipment, net	1,246,960	996,713
Increase (decrease) in other assets	(819)	41
Decrease in long-term debt	140,614	79,001
Capital equipment transferred to U.S. Government	<u>1,104</u>	<u>895</u>
Total uses	<u>2,333,790</u>	<u>6,765,322</u>
Increase (decrease) in working capital	<u>\$ 889,201</u>	<u>(\$ 33,892)</u>

Changes in components of working capital

Increase (decrease) in current assets

Cash and U.S. Government securities	\$ 1,308,115	\$ 91,419
Receivables	122,370	(245,853)
Supplies, advances and prepayments	<u>(6,706)</u>	<u>56,539</u>
	1,423,779	(97,895)

Increase (decrease) in current liabilities

Outstanding postal money orders	58,277	36,363
Compensation and employees' benefits	130,086	184,748
Amounts payable to U.S. Government	5,030	(50,157)
Other accounts payable and accrued expenses	176,724	(90,569)
Deferred revenue	49,461	71,812
Estimated prepaid postage	65,000	65,000
Current portion of long-term debt	<u>50,000</u>	<u>(281,200)</u>
	<u>534,578</u>	<u>(64,003)</u>
Increase (decrease) in working capital	<u>\$ 889,201</u>	<u>(\$ 33,892)</u>

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS
UNITED STATES POSTAL SERVICE
SEPTEMBER 30, 1986 AND 1985**

**Note 1
Postal Reorganization
and Accounting Policies**

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease period or their useful life. Repairs and maintenance costs which do not materially extend the life of assets are expensed as incurred.

Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to approximately \$21,000,000 in fiscal year 1986 and \$25,000,000 in fiscal year 1985.

Workers' compensation costs, which are self-insured by the Postal Service, are recorded as an operating expense in the year of injury at the net discounted present value of the total estimated costs of claims.

Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the fiscal year for which services will be performed in the following fiscal year.

Amounts payable for retirement benefits reflect the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the Fund) arising from increases in basic annual salary in an amount equal to the present value of the equal annual installments due the Fund and payable over a 30-year time period. Amounts applicable to operations of future years are charged to deferred retirement costs and are subsequently amortized through operating expenses.

Employees are permitted to accumulate certain unused annual leave which is payable when taken upon severance of employment or upon retirement. Employees are permitted to accumulate unused sick leave but such amounts are not vested; therefore, sick leave is expensed when paid.

**Note 2
Operating Appropriations**

The Postal Reorganization Act authorized to be appropriated to the Postal Service each year a sum determined by the Postal Service to be equal to revenue forgone by it in providing certain mail services free or at reduced rates. Operating appropriations received during fiscal years 1986 and 1985 totaled \$715,836,000, and \$969,620,000, respectively, and were solely for revenue forgone. These appropriations included \$20,000,000 and \$189,000,000, respectively, to offset the effect of Congress extending the period of phasing rates of certain classes of mail.

**Note 3
Retirement Program**

The Postal Reorganization Act provides that officers and career employees of the Postal Service shall be covered by the Civil Service Retirement Program (the Program) and the Postal Service shall withhold from pay and shall pay to the Civil Service Retirement and Disability Fund (the Fund) the amounts specified by the Program. The Postal Service and employees hired prior to January 1, 1984, each contributed seven percent of basic annual salary to the Fund and 1.45 percent and 1.35 percent in 1986 and 1985, respectively, of gross Social Security wages for Medicare.

Employees hired since January 1, 1984, are covered by the provisions of the Dual Civil Service Retirement/Social Security System. During fiscal years 1986 and 1985, these employees and the Postal Service each contributed 1.3 percent and seven percent, respectively, of basic annual salary to the Fund and 7.15 (7.05 in 1985) percent of gross wages for Social Security.

Under the Civil Service Retirement Program, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the Fund attributable to Postal Service employee-management agreements that authorize increases in basic annual salary on which benefits payable from the Fund are computed. The estimated increase in the unfunded liability as determined by the Office of

Personnel Management (OPM) is paid by the Postal Service in 30 equal annual installments with interest computed at the rate used in the most recent valuation of the Civil Service Retirement System (currently five percent), with the first payment thereof due at the end of the fiscal year in which an increase in basic annual salary becomes effective. The total increase in the annual payment that resulted from increases in basic annual salary was approximately \$58,604,000 and \$318,998,000 for fiscal years 1986 and 1985, respectively.

Under the July 1981 and 1984 employee-management agreements, cost-of-living increases (COLAs) accumulated under prior agreements become part of basic annual salary in two phases. For those employees who so elected and who were eligible for optional retirement at the contract date or within the next six years, the accumulated COLAs became part of basic annual salary during the fiscal year following the contract date. For all other employees, the accumulated COLAs are included in basic annual salary under the 1981 and 1984 agreements in October 1984 and October 1987, respectively.

Whether COLAs to be paid in fiscal years 1985, 1986 and 1987 under the provisions of the 1984 employee-management agreements will be scheduled for inclusion in basic annual salary will be determined in future contract negotiations.

In fiscal year 1984, OPM informed the Postal Service that, with respect to the COLAs scheduled for inclusion in basic annual salary in October 1984 under the provisions of the 1981 employee-management agreements, it

would consider employee and employer contributions applicable to these COLAs since November 1981, and related interest, as an increase in the unfunded liability beginning in fiscal year 1985. Postal Service management reviewed OPM's position and accepted it in fiscal year 1985 for purposes of determining the increase in the unfunded liability and annual payment thereon. Management expects OPM's position to also apply to accumulated COLAs scheduled to be included in basic annual salary in October 1987 under the terms of the 1984 employee-management agreements.

The increases in the unfunded liability and annual payment for retirement benefits in fiscal year 1985 include \$3,212,987,000 and \$199,056,000, respectively, due to the addition of accumulated COLAs to basic annual salary in October 1984 and \$1,011,798,000 and \$62,685,000, respectively, due to the addition of accumulated COLAs to basic annual salary in April 1985.

Effective January 1, 1987, employees hired since January 1, 1984, will be subject to the provisions of the Federal Employees Retirement System (FERS) Act of 1986. Employees hired prior to January 1, 1984, will be able to elect participation in FERS between July 1, 1987, and December 31, 1987. FERS is a three-tier retirement system consisting of Social Security,

a basic annuity plan and a thrift savings plan. Contributions to the basic annuity plan are to be determined actuarially by OPM with the objective that benefits under the plan be fully funded. Unfunded liabilities of the basic annuity plan, if any, related to Postal Service employees as determined by OPM, will be funded by the Postal Service through supplemental contributions over thirty years with interest.

During fiscal year 1987, for participating employees, FERS will require contributions from the Postal Service and the employees amounting to 7.15 percent of gross wages for Social Security and an estimated 14.7 and 1.3 percent, respectively, of basic annual salary for the basic annuity plan. The Postal Service will also be required to contribute a minimum of 1 percent of the basic annual salary of participating employees per annum to the thrift savings plan. Contributions by employees to the thrift savings plan will be voluntary and will be fully matched by the Postal Service up to 3 percent of basic annual salary and at a fifty percent rate between 3 and 5 percent of basic annual salary.

The estimated future minimum payments required to fund amounts payable for retirement benefits at September 30, 1986, are as follows:

Fiscal Year	Amount
1987	\$ 1,353,056,000
1988	1,353,056,000
1989	1,353,056,000
1990	1,353,056,000
1991	1,353,056,000
Thereafter	<u>24,472,022,000</u>
	31,237,302,000
Less amount representing interest and the portion classified as a current liability	<u>13,607,041,000</u>
	<u>\$17,630,261,000</u>

Aggregate retirement costs for fiscal years 1986 and 1985 were \$2,360,000,000 and \$2,260,000,000, respectively, including \$1,354,786,000 and \$1,251,793,000, respectively, attributable to amortization of deferred retirement costs and interest on the unfunded liability.

**Note 4
Long-Term Debt
and Interest Costs**

The Postal Reorganization Act authorizes the Postal Service to issue and sell obligations not to exceed \$10,000,000,000 outstanding at any one time. The net increase outstanding in any one year shall not exceed \$1,500,000,000 for capital improvements and \$500,000,000 for operating expenses. Such obligations shall not be obligations of the U.S. Government unless the Secretary of the Treasury, upon request of the Postal Service, determines that it would be in the public interest to pledge the full faith and credit of the Government of the United States.

Long-term debt consists of the following:

The 67% Postal Service Bonds, Series A, were issued under a Trust Indenture dated February 1, 1972, and are secured by a first lien on the revenue, income, fees, rents, appropriations, and other receipts of the Postal Service; the proceeds of all obligations issued by the Postal Service; and all sinking and improvement funds established pursuant to the Trust Indenture. On July 31 of each year, the Postal Service is required to deposit in a sinking and improvement fund the sum of \$10,000,000 either in cash or reacquired Series A Bonds. However, the Trust Indenture further provides that, at the option of the Postal Service, such sinking fund requirements may be applied to the payment of costs of capital additions or improvements to properties of the Postal Service. Since the commencement of the sinking

fund in 1978, the Postal Service has applied \$80,000,000 to the construction of mail facilities. The balance in the sinking fund (\$10,000,000 in 1986 and \$13,300,000 in 1985) is classified with other assets in the accompanying balance sheets. The bonds are redeemable prior to maturity, at the option of the Postal Service, at the principal amount plus accrued interest.

At September 30, 1986, the maturities of long-term debt, including sinking fund requirements, are as follows:

	Sept. 30, 1986	Sept. 30, 1985
67% Postal Service Bonds, Series A, due February 1, 1997	\$ 250,000,000	\$ 250,000,000
Notes payable to Federal Financing Bank:		
8.075% payable \$32,000,000 each year to May 31, 2000	448,000,000	480,000,000
7.80% payable \$15,000,000 each year to May 31, 2001	225,000,000	240,000,000
10.475% payable \$38,800,000 each year to May 31, 2010	931,200,000	970,000,000
7.591% payable \$50,000,000 each year to May 31, 2011	1,250,000,000	—
Mortgage notes payable including interest of 4% to 15% maturing from fiscal years 1987 through 2010 secured by land, buildings and equipment with a carrying amount of \$179,000,000 (aggregate annual installments approximate \$6,000,000 with \$86,000,000 due in fiscal year 1988)	130,249,000	135,063,000
	3,234,449,000	2,075,063,000
	141,800,000	91,800,000
Less current portion	<u>\$3,092,649,000</u>	<u>\$1,983,263,000</u>

Fiscal Year	Amount
1987	\$ 151,800,000
1988	237,800,000
1989	151,800,000
1990	151,800,000
1991	151,800,000
Thereafter	<u>2,389,449,000</u>
	<u>\$3,234,449,000</u>

Total interest costs incurred during fiscal years 1986 and 1985 were \$186,712,000 and \$107,740,000, respectively, of which \$73,150,000 and \$47,900,000, respectively, were capitalized as part of the cost of newly constructed property and equipment.

**REPORT OF THE
INDEPENDENT ACCOUNTANTS**

**Note 5
Commitments**

At September 30, 1986, the estimated cost to complete approved Postal Service capital proj-

ects was approximately \$2,097,000,000.

Total rental expense for the years ended September 30, 1986 and 1985 is summarized as follows:

	1986	1985
Noncancellable real estate leases, including related taxes (1986—\$37,200,000; 1985—\$33,400,000)	\$370,800,000	\$337,500,000
Facilities leased from the General Services Administration subject to 30-day notice of cancellation	35,500,000	39,100,000
Equipment and other short-term rentals	<u>72,400,000</u>	<u>90,900,000</u>
	<u>\$478,700,000</u>	<u>\$467,500,000</u>

At September 30, 1986, the future minimum rentals for all noncancellable leases approximate the following:

Year	Total
1987	\$ 306,000,000
1988	280,000,000
1989	240,000,000
1990	195,000,000
1991	148,000,000
Thereafter	<u>505,000,000</u>
	<u>\$1,674,000,000</u>

Most of these leases contain renewal options for periods ranging from three to twenty years. Certain noncancellable real estate leases have options to purchase the facilities at prices specified in the leases.

**Note 6
Contingencies**

Several equal employment opportunity, employee compensation and postal rate class action lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages, and suits and claims arising out of postal contracts.

In the opinion of management and General Counsel, adequate provision has been made for amounts which may become due under the suits, claims, and proceedings discussed in the preceding paragraph, and the likelihood of the aggregate final settlements of the above suits, claims, and proceedings having a material effect on the accompanying financial statements is remote.

**Board of Governors
United States Postal Service**

We have examined the accompanying balance sheets of the United States Postal Service at September 30, 1986 and 1985, and the related statements of operations and changes in equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of the United States Postal Service at September 30, 1986 and 1985, and the results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Arthur Young & Company
Washington, D.C.
November 17, 1986

FINANCIAL HISTORY SUMMARY

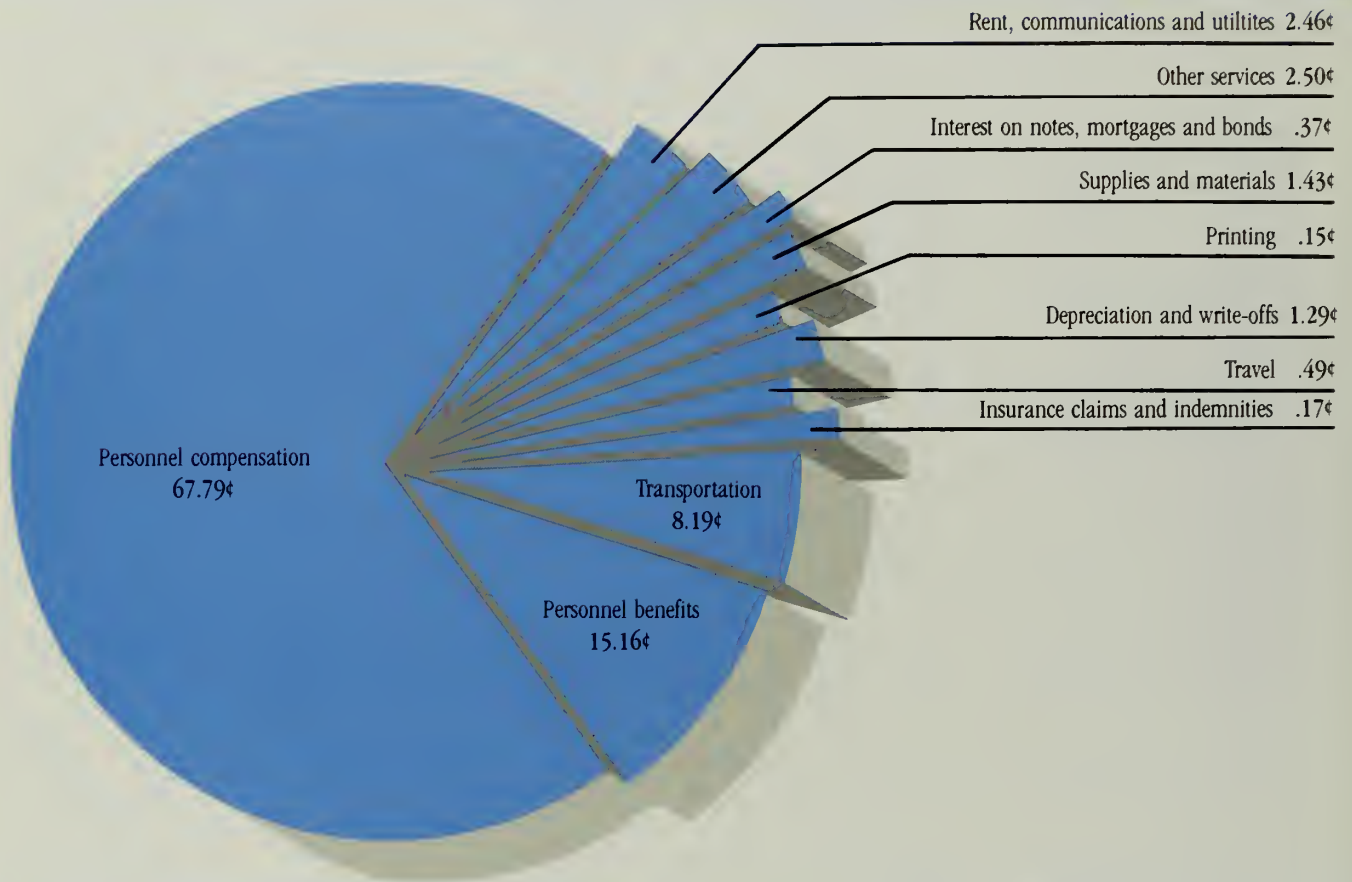
	1986	1985	1984	1983	1982
(dollars in thousands)					
Statement of Operations					
Operating revenue	\$30,102,091	\$27,736,071	\$25,313,554	\$23,581,667	\$22,599,937
Public service appropriation	0	0	0	0	12,140
Revenue forgone appropriation	<u>715,836</u>	<u>969,620</u>	<u>879,000</u>	<u>789,000</u>	<u>694,670</u>
Total revenue	<u>30,817,927</u>	<u>28,705,691</u>	<u>26,192,554</u>	<u>24,370,667</u>	<u>23,306,747</u>
Salaries and benefits	25,575,894	24,349,087	22,157,261	20,070,241	19,094,495
Other expenses	<u>5,140,701</u>	<u>4,858,114</u>	<u>4,200,092</u>	<u>4,012,832</u>	<u>3,731,722</u>
Total operating expenses	<u>30,716,595</u>	<u>29,207,201</u>	<u>26,357,353</u>	<u>24,083,073</u>	<u>22,826,217</u>
Operating income (loss)	101,332	(501,510)	(164,799)	287,594	480,530
Other income, net	<u>203,276</u>	<u>250,030</u>	<u>282,151</u>	<u>328,732</u>	<u>321,046</u>
Net income (loss)	<u>\$ 304,608</u>	<u>(\$ 251,480)</u>	<u>\$ 117,352</u>	<u>\$ 616,326</u>	<u>\$ 801,576</u>
Balance Sheet					
Assets					
Current assets	\$ 4,658,520	\$ 3,234,741	\$ 3,332,636	\$ 3,233,035	\$ 3,352,598
Property, plant and equipment, deferred retirement costs and other assets	<u>25,155,662</u>	<u>23,825,476</u>	<u>18,227,022</u>	<u>17,630,817</u>	<u>16,453,906</u>
Total assets	<u>\$29,814,182</u>	<u>\$27 060,217</u>	<u>\$21,559,658</u>	<u>\$20 863,852</u>	<u>\$19,806,504</u>
Liabilities					
Current liabilities	\$ 4,846,471	\$ 4,311,893	\$ 4,375,896	\$ 3,753,123	\$ 3,818,819
Other liabilities	21,513,194	20,706,697	15,780,759	15,608,104	15,029,958
Long-term debt—bonds, notes and mortgages	3,092,649	1,983,263	1,092,264	1,390,855	1,462,873
Equity (deficiency)	<u>361,868</u>	<u>58,364</u>	<u>310,739</u>	<u>111,770</u>	<u>(505,146)</u>
Total liabilities and equity (deficiency)	<u>\$29,814,182</u>	<u>\$27 060,217</u>	<u>\$21,559,658</u>	<u>\$20 863,852</u>	<u>\$19,806,504</u>
Analysis of Changes in Equity (Deficiency)					
Beginning balance	\$ 58,364	\$ 310,739	\$ 111,770	(\$ 505,146)	(\$ 1,306,700)
Net income (loss)	304,608	(251,480)	117,352	616,326	801,576
Capital contributions	(1,104)	(895)	81,617	590	(22)
Ending balance	<u>\$ 361,868</u>	<u>\$ 58,364</u>	<u>\$ 310,739</u>	<u>\$ 111,770</u>	<u>(\$ 505,146)</u>

REVENUE FORGONE APPROPRIATION*
FISCAL YEAR 1986

Class of Service	Total Income of Service	Income from Revenues	Income from Appropriation	Appropriation as a Percentage of Income
(dollars in millions)				
First-Class Mail	\$18,034.9	\$18,034.9	none	none
Priority Mail	1,010.7	1,010.7	none	none
Express Mail	490.8	490.8	none	none
Mailgram	17.5	17.5	none	none
Second-Class Mail				
Within-the-county	\$ 147.7	\$ 93.9	\$ 53.8	36.4
Outside-the-county				
Nonprofit publications	235.8	179.7	56.1	27.0
Classroom publications	6.3	4.6	1.7	23.8
Regular-rate publications	958.0	935.9	22.1	2.3
Fees	<u>8.2</u>	<u>8.2</u>	<u>none</u>	<u>none</u>
Total Second-Class Mail	\$ 1,356.0	\$ 1,222.3	\$ 133.7	9.9
Third-Class Mail				
Single-piece rate	\$ 149.4	\$ 149.4	none	none
Regular bulk rate	4,670.5	4,670.5	none	none
Nonprofit bulk rate	1,291.1	743.1	\$ 548.0	42.4
Fees	<u>43.3</u>	<u>43.3</u>	<u>none</u>	<u>none</u>
Total Third-Class Mail	\$ 6,154.3	\$ 5,606.3	\$ 548.0	8.9
Fourth-Class Mail				
Parcels (zone rate)	\$ 404.5	\$ 404.5	none	none
Bound printed matter	145.6	145.6	none	none
Special-rate matter	213.0	213.0	none	none
Library materials	79.0	48.3	\$ 30.7	38.9
Fees	<u>2.9</u>	<u>2.9</u>	<u>none</u>	<u>none</u>
Total Fourth-Class Mail	\$ 845.0	\$ 814.3	\$ 30.7	3.6
U.S. Government (franked and penalty) mail	\$ 992.5	\$ 992.5	none	none
Free mail for the blind and handicapped	37.9	—	\$ 37.9	100.0
International mail	<u>934.1</u>	<u>934.1</u>	<u>none</u>	<u>none</u>
Totals	\$29,873.7	\$29,123.4	\$ 750.3	2.5
Adjustment for prior years			<u>-34.5</u>	
Total			\$ 715.8	

*Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss, which is the difference between the reduced rate and the otherwise applicable rate, is given to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

**ANALYSIS OF EXPENSES
FISCAL YEAR 1986**



Financial Operations

Source of Income

Millions of Dollars

Mail revenue:

Postage	\$28,130.9	
Federal government	992.5	\$29,123.4

Special services 978.7

Government appropriations:

Revenue forgone appropriation for free and reduced rate mail	715.8
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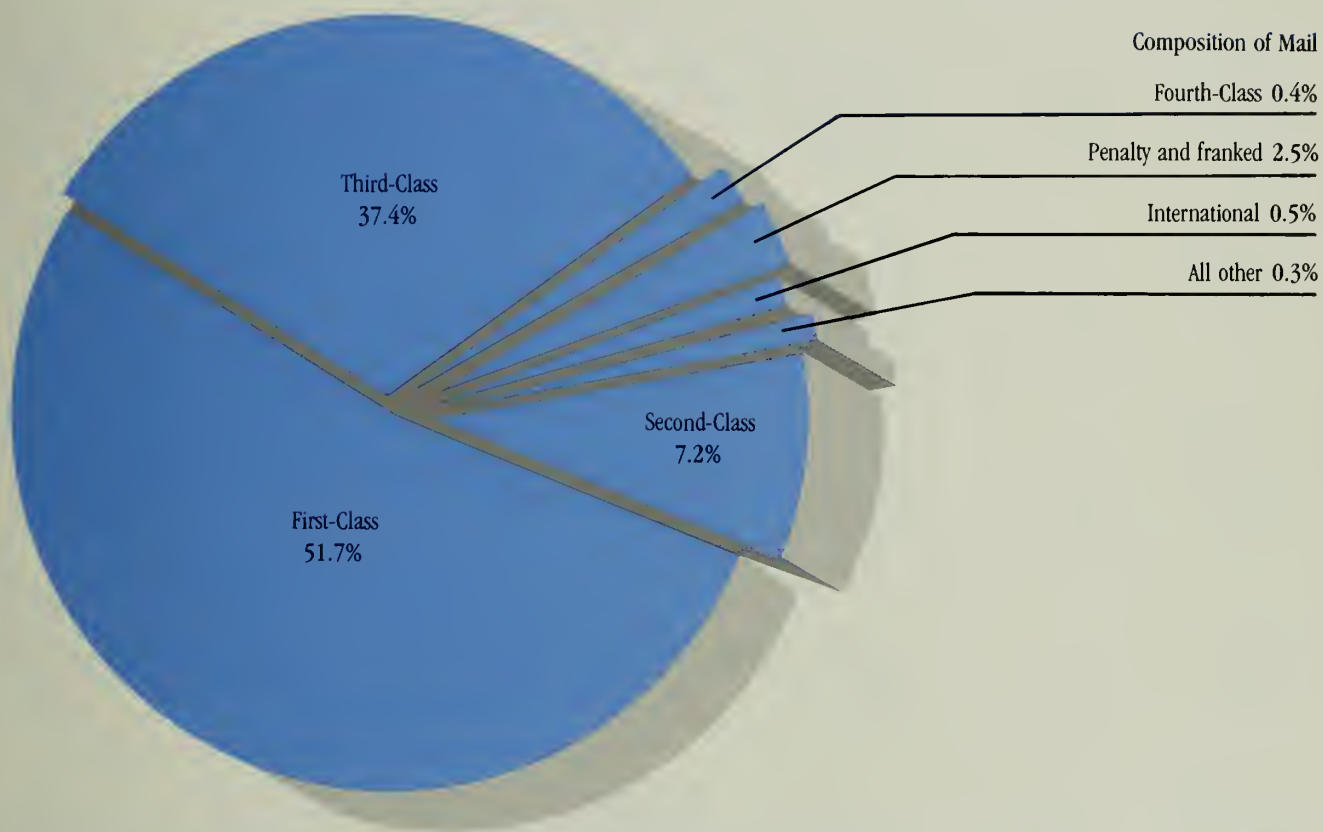
Other income, net 203.3

Total income 31,021.2

Total operating expenses 30,716.6

Net income \$ 304.6

**ANALYSIS OF MAIL VOLUME
FISCAL YEAR 1986**



Pieces of Mail

Mail Classification (in billions)	1986	1985	Percent Change
First-Class	76.19	72.44	5.2
Second-Class	10.59	10.38	2.0
Third-Class	55.05	52.17	5.5
Fourth-Class	0.60	0.58	4.6
Penalty and franked	3.72	3.29	13.1
International	0.80	0.83	-4.0
All other	<u>0.43</u>	<u>0.41</u>	<u>5.0</u>
Total mail	147.38	140.10	5.2

OPERATING STATISTICS

Classes of Mail	1986	1985	1984	1983	1982
(in thousands of units indicated)					
First-Class					
Pieces, number	76,186,648	72,440,277	68,428,570	64,246,880	62,200,212
Weight, pounds	2,811,578	2,662,593	2,511,893	2,341,830	2,238,555
Revenue	\$18,034,926	\$16,739,909	\$15,215,938	\$14,255,397	\$13,747,357
Priority Mail					
Pieces, number	329,896	307,815	293,442	271,355	258,674
Weight, pounds	704,027	672,446	656,085	587,607	582,084
Revenue	\$ 1,010,709	\$ 959,989	\$ 928,436	\$ 848,805	\$ 823,065
Express Mail*					
Pieces, number	40,095	43,939	42,819	35,920	27,748
Weight, pounds	125,325	140,002	141,518	105,276	103,455
Revenue	\$ 490,782	\$ 502,482	\$ 457,656	\$ 394,209	\$ 314,828
Mailgram					
Pieces, number	25,540	31,266	34,329	36,588	42,075
Revenue	\$ 17,469	\$ 14,906	\$ 12,811	\$ 13,799	\$ 15,997
Second-Class					
Pieces, number	10,587,904	10,379,515	9,522,476	9,219,753	9,526,570
Weight, pounds	3,971,641	3,965,545	3,852,029	3,526,097	3,481,712
Revenue	\$ 1,222,327	\$ 1,092,927	\$ 1,025,020	\$ 958,369	\$ 961,075
Third-Class					
Pieces, number	55,048,946	52,170,257	48,248,714	40,734,719	36,719,323
Weight, pounds	6,543,988	6,452,647	5,786,583	5,062,073	4,295,638
Revenue	\$ 5,606,268	\$ 4,886,566	\$ 4,240,832	\$ 3,676,775	\$ 3,303,187

**Express Mail statistics have been restated to represent Domestic Express Mail only. Statistics for International Air have been revised to reflect this change.*

Classes of Mail	1986	1985	1984	1983	1982
(in thousands of units indicated)					
Fourth-Class					
Pieces, number	602,006	575,680	599,037	567,529	596,699
Weight, pounds	2,254,271	2,156,461	2,289,263	2,248,224	2,445,945
Revenue	\$ 814,291	\$ 763,003	\$ 773,988	\$ 753,168	\$ 787,649
International Surface					
Pieces, number	315,734	327,449	352,481	385,137	404,619
Weight, pounds	153,750	153,644	165,590	166,609	174,527
Revenue	\$ 220,877	\$ 212,753	\$ 212,862	\$ 222,872	\$ 233,880
International Air**					
Pieces, number	481,993	503,266	543,447	520,562	523,620
Weight, pounds	64,408	69,491	70,151	67,564	60,272
Revenue***	\$ 713,249	\$ 710,834	\$ 677,919	\$ 678,796	\$ 672,011
Penalty					
Pieces, number	2,969,799	2,608,045	2,523,178	2,775,321	2,946,379
Weight, pounds	468,930	469,530	499,673	487,156	513,046
Revenue	\$ 896,376	\$ 848,896	\$ 788,894	\$ 841,012	\$ 818,472
Franked					
Pieces, number	751,769	682,914	923,955	549,247	772,696
Weight, pounds	17,441	14,847	19,744	14,178	20,646
Revenue	\$ 96,103	\$ 85,529	\$ 111,646	\$ 72,197	\$ 99,309
Free for the Blind					
Pieces, number	35,475	27,533	32,172	38,398	30,590
Weight, pounds	36,793	25,375	29,595	37,797	27,898
Totals					
Pieces, number	147,375,805	140,097,956	131,544,620	119,381,409	114,049,205
Weight, pounds	17,152,152	16,782,581	16,022,124	14,644,411	13,943,778
Revenue	\$29,123,377	\$26,817,794	\$24,446,002	\$22,715,399	\$21,776,830

***Figures have been revised to include International Express Mail formerly included with Domestic Express Mail.*

****Includes transit special handling and miscellaneous revenue.*

Special Services	1986	1985	1984	1983	1982
	(in thousands of units indicated)				
Registry					
Number of articles (paid and free)	52,348	51,123	54,735	53,950	53,836
Revenue	\$ 167,363	\$ 164,038	\$ 162,979	\$ 164,882	\$ 157,888
Certified					
Number of pieces	147,374	130,698	124,112	111,255	105,708
Revenue	\$ 202,927	\$ 174,702	\$ 155,998	\$ 140,538	\$ 136,009
Insurance					
Number of articles	39,783	43,372	46,960	48,749	47,498
Revenue	\$ 50,344	\$ 51,043	\$ 54,229	\$ 55,505	\$ 53,374
Collection-on-Delivery					
Number of articles	10,383	11,022	11,960	11,819	13,333
Revenue	\$ 19,528	\$ 21,304	\$ 23,030	\$ 21,906	\$ 25,560
Special Delivery					
Number of articles	10,232	15,373	19,044	22,055	25,837
Revenue	\$ 30,448	\$ 40,496	\$ 40,681	\$ 47,416	\$ 55,440
Money Orders					
Number issued	133,799	117,792	115,550	115,073	109,479
Revenue fees	\$ 134,647	\$ 125,935	\$ 131,575	\$ 124,200	\$ 121,785
Other					
Box rents revenue	\$ 258,582	\$ 229,891	\$ 188,055	\$ 202,050	\$ 168,049
Stamped envelope revenue	14,743	16,831	13,883	16,826	18,927
Other revenue, net	100,132	94,037	97,122	92,945	86,075
Totals					
Special services revenue	\$ 978,714	\$ 918,277	\$ 867,552	\$ 866,268	\$ 823,107
Mail revenue	<u>29,123,377</u>	<u>26,817,794</u>	<u>24,446,002</u>	<u>22,715,399</u>	<u>21,776,830</u>
Operating revenue	<u>\$30,102,091</u>	<u>\$27,736,071</u>	<u>\$25,313,554</u>	<u>\$23,581,667</u>	<u>\$22,599,937</u>

Employees	1986*	1985*	1984*	1983*	1982*
Headquarters employees	3,037	3,077	3,012	2,993	2,893
Field regular employees					
Regional and other field units	4,988	6,536	6,524	6,441	6,339
Inspection Service (field)	4,237	4,370	4,510	4,655	4,977
Postmasters	27,352	27,811	28,140	28,266	28,514
Post office supervisors and technical personnel	49,424	46,279	44,515	41,659	40,673
Post office clerks, mail handlers and nurses	259,773	248,939	235,172	229,141	231,802
City delivery carriers and vehicle drivers	186,727	179,198	171,434	166,317	165,087
Rural delivery carriers	35,938	35,206	34,679	34,438	33,987
Special delivery messengers	1,824	1,832	1,790	1,815	1,843
Building and equipment maintenance personnel	28,383	28,477	27,524	27,193	26,268
Vehicle maintenance facility personnel	<u>4,346</u>	<u>4,218</u>	<u>4,119</u>	<u>4,023</u>	<u>4,034</u>
Total full-time employees	606,029	585,943	561,419	546,941	546,417
Other employees	147,870	130,055	116,585	109,459	105,510
Rural carrier substitutes	3,184	4,716	6,687	9,324	14,375
Rural carrier reliefs**	<u>27,474</u>	<u>23,776</u>	<u>17,432</u>	<u>13,121</u>	<u>8,820</u>
Grand total	<u>784,557</u>	<u>744,490</u>	<u>702,123</u>	<u>678,845</u>	<u>675,122</u>

Offices, Stations and Branches	1986	1985	1984	1983	1982
Number of post offices	29,344	29,557	29,750	29,990	30,155
Number of stations and branches:					
Classified stations and branches:	4,240	4,224	4,184	4,160	4,129
Contract stations and branches:	3,965	3,856	3,744	3,626	3,508
Community post offices	<u>1,721</u>	<u>1,690</u>	<u>1,708</u>	<u>1,669</u>	<u>1,655</u>
Total	<u>9,926</u>	<u>9,770</u>	<u>9,636</u>	<u>9,455</u>	<u>9,292</u>
Grand total	<u>39,270</u>	<u>39,327</u>	<u>39,386</u>	<u>39,445</u>	<u>39,447</u>

*Figures have been revised to conform with current method of counting employees using the on-rolls and paid employee statistics database.

**Rural carrier reliefs are a new kind of casual employee created by the 1981-84 agreement between the Postal Service and the National Rural Letter Carriers' Association and are now included in the 1982-86 totals.



Postmaster General
Preston R. Tisch



Deputy Postmaster General
Jackie A. Strange



Associate Postmaster General
Fletcher F. Acord



Left to Right: Senior Assistant Postmasters General Edward E. Horgan, Jr., Mitchell H. Gordon, Michael S. Coughlin, David H. Charters, Kenneth J. Hunter, Comer S. Coppie and General Counsel Louis A. Cox.



Left to Right: Regional Postmasters General Johnny F. Thomas, John G. Mulligan, Harry C. Penttala, Joseph R. Caraveo and Jerry K. Lee, Sr.

SENIOR U.S.P.S. OFFICIALS

Preston R. Tisch
Postmaster General

Jackie A. Strange
Deputy Postmaster General

Fletcher F. Acord
Associate Postmaster General

Louis A. Cox
General Counsel

Charles R. Clauson
Chief Postal Inspector

David H. Charters
Senior Assistant Postmaster General
Human Resources Group

Comer S. Coppie
Senior Assistant Postmaster General
Finance and Planning Group

Michael S. Coughlin
Senior Assistant Postmaster General
Operations Support Group

Mitchell H. Gordon
Senior Assistant Postmaster General
Marketing and Communications Group

Edward E. Horgan, Jr.
Senior Assistant Postmaster General
Facilities and Supply Group

Kenneth J. Hunter
Senior Assistant Postmaster General
Management Information and Research Technology
Group

Joseph R. Caraveo
Regional Postmaster General
Western Region

Jerry K. Lee, Sr.
Regional Postmaster General
Central Region

John G. Mulligan
Regional Postmaster General
Northeast Region

Harry C. Penttala
Regional Postmaster General
Southern Region

Johnny F. Thomas
Regional Postmaster General
Eastern Region

BOARD OF GOVERNORS END OF FISCAL YEAR 1986



John R. McKean, *Chairman of the Board*, was appointed a Governor in 1982 for a term expiring December 8, 1986. In 1983 he was appointed to a term expiring December 8, 1991. He is president of John R. McKean Accountants in San Francisco, California.



John L. Ryan, *Vice Chairman of the Board*, became a postal Governor in 1983 for a term expiring December 8, 1989. He is Vice President of MET-PRO Corporation and General Manager of its Dean Pump Division in Indianapolis, Indiana.



George W. Camp of Atlanta, Georgia, became a Governor in 1979 for a term expiring December 8, 1985. As provided by law, he continued to serve until December 8, 1986, pending the confirmation of a successor. He is a retired postal executive with more than 36 years of federal service.



John N. Griesemer, President of the Griesemer Stone Company in Springfield, Missouri, became a Governor in 1984 for a term expiring December 8, 1986. In 1986, he was appointed to a full term, expiring December 8, 1995. He is Chairman of the Board's Audit Committee.



J. H. Tyler McConnell, a lawyer, banker and business executive, was appointed a Governor in 1985 for a term that expires December 8, 1988.



Crocker Nevin, Chairman of the Board and Chief Executive Officer of CF&I Steel Corporation, became a Governor in 1986, and will serve the remainder of a term expiring December 8, 1992. He previously had served on the Board of Governors from 1971 to 1977.



Ruth O. Peters, of Arlington, Virginia, a retired postal executive, was appointed to the Board in 1983 for a term expiring December 8, 1987.



Robert Setrakian, a San Francisco businessman, was appointed to the Board in 1985, for a term expiring December 8, 1993.



Preston R. Tisch, named Postmaster General by the Board on August 16, 1986, joined the Postal Service from Loews Corporation, one of the country's largest diversified financial companies, where he had been president and chief operating officer.



Jackie A. Strange, named Deputy Postmaster General by the Board on February 16, 1985, is the chief operating officer and alternate chief executive officer of the Postal Service. She joined the Postal Service in 1947.

Note: Also serving on the Board during FY 86 were Paul N. Carlin, Postmaster General, from January 1, 1985, to January 6, 1986; Albert V. Casey, Postmaster General, from January 7, 1986, to August 15, 1986; William J. Sullivan, who served as a Governor from 1979 to December 8, 1985; and Peter E. Voss, who resigned from the Board on May 30, 1986.

At the close of Fiscal 1986, there were two vacancies on the Board for terms expiring in 1990 and 1994.



U.S. Postal Service
475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-0010



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Sept 30

Dear Bill,

I am writing to tell you how our new National
Accounts Program can reduce your mailing costs,
increase your float and eliminate most
undeliverable-as-addressed mail.

Best regards,

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FINANCIAL AND OPERATING HIGHLIGHTS

	Year Ended Sept. 30, 1987	Year Ended Sept. 30, 1986	Year Ended Sept. 30, 1985	Year Ended Sept. 30, 1984	Year Ended Sept. 30, 1983
Pieces of mail (millions)	153,931	147,376	140,098	131,545	119,381
Percent change	4.4	5.2	6.5	10.2	4.7
(dollars in millions)					
Operating revenue	\$31,528	\$30,102	\$27,736	\$25,314	\$23,582
Percent change	4.7	8.5	9.6	7.3	4.3
Public service appropriation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Percent change	—	—	—	—	—100.0
Revenue forgone appropriation	\$ 650	\$ 716	\$ 970	\$ 879	\$ 789
Percent change	—9.2	—26.2	10.3	11.4	13.6
Total appropriations	\$ 650	\$ 716	\$ 970	\$ 879	\$ 789
Percent change	—9.2	—26.2	10.3	11.4	11.6
Total operating expenses	\$32,520	\$30,717	\$29,207	\$26,357	\$24,083
Percent change	5.9	5.2	10.8	9.4	5.5
Net income (loss)	(\$ 223)	\$ 305	(\$ 251)	\$ 117	\$ 616
Percent change	—	—	—	—81.0	—23.1
Fixed assets (net of depreciation)	\$ 6,628	\$ 5,588	\$ 5,065	\$ 4,813	\$ 4,462
Percent change	18.6	10.3	5.2	7.9	8.0
Equity (deficiency)	\$ 138	\$ 362	\$ 58	\$ 311	\$ 112
Percent change	—61.8	520	—81.2	178.0	—
(in units indicated)					
U.S. resident population January 1 (millions)	242.2	239.9	237.8	234.9	233.3
Percent change	0.9	0.9	1.2	0.7	1.0
Pieces of mail per capita	635	614	589	560	512
Percent change	3.5	4.2	5.2	9.4	3.6
Operating revenue per capita	\$ 130.16	\$ 125.46	\$ 116.64	\$ 107.77	\$ 101.08
Percent change	3.7	7.6	8.2	6.6	3.3
Accrued cost per piece of mail	21.13¢	20.84¢	20.85¢	20.04¢	20.17¢
Percent change	1.4	—	4.0	—0.6	0.8
Operating revenue per piece of mail	20.48¢	20.43¢	19.80¢	19.24¢	19.75¢
Percent change	0.2	3.2	2.9	—2.6	—0.4
Net income (loss) per piece of mail	(0.14¢)	0.21¢	(0.18¢)	0.09¢	0.52¢
Percent change	—	—	—	—82.7	—25.7
Employees	790,557	784,557	744,490	702,123	678,845
Percent change	0.8	5.4	6.0	3.4	0.6

JUN 20 1988



Preston R. Tisch
Postmaster General of the United States

TO THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE:

It is at least unusual to preface a company's annual report for the prior year with a message about things happening in the present fiscal year. These are, however, very unusual times for the Postal Service. Circumstances beyond our control are certain to have a very significant effect on the health and operations of our business in FY 1988 and FY 1989.

As the Postal Service was completing the first quarter of fiscal 1988, the Congress came to grips with the need to reduce the national deficit by approving complex omnibus legislation that will seriously impact the Postal Service. Although we do not, as a revenue-producing, self-supporting agency, contribute in any meaningful way to the national deficit, we were included.

Under the Budget Reconciliation Act of 1987, we are required to reduce our outlays over the next 20 months by \$1.24 billion, a difficult task under the best of circumstances. Unfortunately, by dictating where we must find the money, the Act limits our ability to accomplish this objective without serious adjustments in the way we run our business.

The Postal Service has been forced to cancel or postpone virtually all new facility construction and defer purchasing much of the new equipment needed to improve our productivity and the efficiency with which we deliver service to our customers. Significant adjustments, though not as serious as was at first feared, will also be necessary in those operating areas of our business with a direct bearing on our service performance.

Our marketing and operating strategies for 1987—and beyond—had clearly focused our resources on improving the services we provide to our customers. We are concerned now that in making the required adjustments, we not undo the significant progress made in 1987 and detailed in this annual report. We will do everything possible to see that this does not happen.

Postal finances, viewed in the long-term, indicate USPS's ability to break even over time. In the past decade, surpluses in five years and deficits in the remaining five years have resulted in an overall surplus of approximately \$560 million, which is a fraction of the Postal Service's total revenue for the period.

In an effort to avoid a repeat of these disruptive adjustments the next time the deficit is dealt with, we have proposed that the Postal Service be returned to the self-funding budget status it held from 1974 until 1985. We believe that this change will allow us to continue to account for our capital commitments in a businesslike manner, without distorting our impact on the federal deficit. Judging from the conference committee's report, we believe the Congress will seriously consider the difficult challenge these capital and operating budget adjustments present to the nation's mail network.

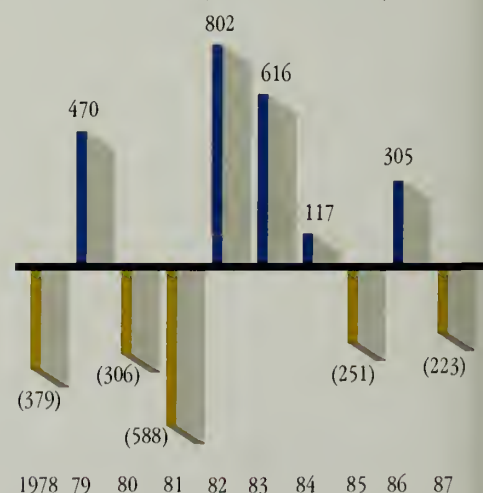
We hope to demonstrate that the Postal Service must be responsible for its own budget destiny, a keystone principle of the Postal Reorganization Act of 1970.

Despite the present budgetary problems, the Postal Service is fundamentally sound today. Its men and women remain committed to its long tradition of public service, but they recognize that the competitive environment in which the Postal Service finds itself requires that it work harder and smarter to win and to keep its customers.

To remain competitive, the Postal Service must strive constantly to meet its charter to provide one of this nation's most fundamental public services efficiently and effectively. In that regard, I believe that Fiscal Year 1987 can be viewed as a highly successful year.

Our major business indicators were positive. Mail volume continued its pattern of healthy growth. The 153.9 billion pieces of mail we collected, processed and delivered was the highest volume in our history. Postal revenues also

Net Income (Loss) (dollars in millions)



reached a record level of \$32.5 billion. Although we closed the fiscal year with a loss of \$223 million, that loss was less than seven-tenths of one percent of total revenue.

The Postal Service has produced surpluses in five of the last ten years and moderate losses in five. Over the ten-year period, we've been approximately \$560 million in the black—a performance remarkably close to the requirement that we break even over time.

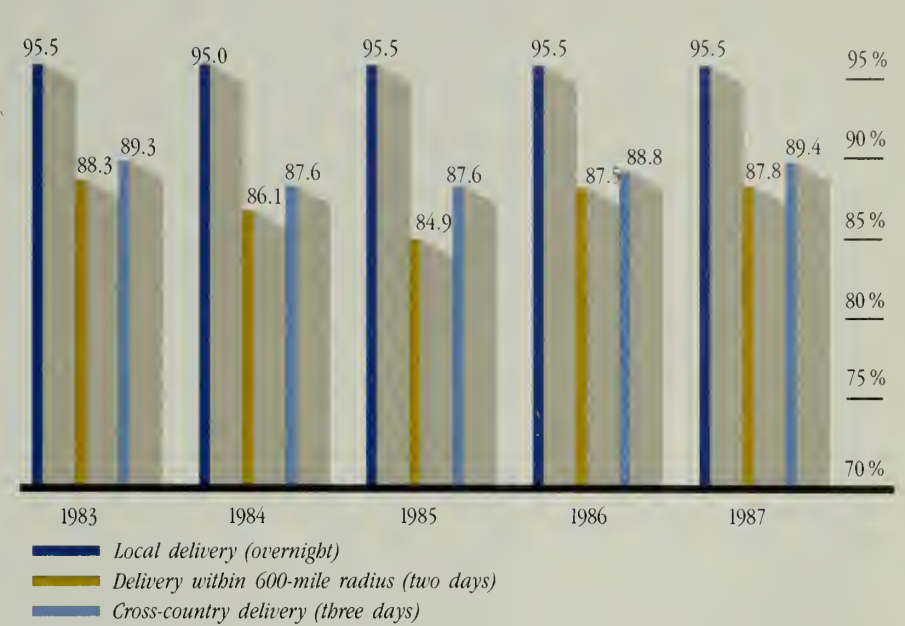
Judging the performance of FY 1987 by these raw numbers alone, however, would belie the significance of the marked progress the Postal Service made throughout the year. Our managers at the headquarters, regional and field levels demonstrated time and again the flexibility and capability needed to operate with the best disciplines of business and government to provide mail service that is the best in the world today.

Historically high standards for service performance were met or exceeded in most of our measured categories and, as I indicated earlier, efforts were initiated to work more closely with major customers and consumers so that the Postal Service is today better able to understand and anticipate their needs.

Further refinements in our management structure were made during the year to support this commitment to customer satisfaction. Our marketing functions, for example, were realigned to devote our available resources to each segment of our customer base and to help identify opportunities for increasing the Postal Service's capacity for internal coordination among functional areas. Our National Accounts team, supported by senior managers, devoted its attention to major customers. The Commercial Accounts Division worked closely with medium- and smaller-volume customers. The Philatelic and Retail Services Department focused on the needs of stamp collectors and the individual consumers who use our lobbies. The Consumer Advocate's Office also focused on the needs of the consumer, and our delivery and retail functions committed record resources to bringing state-of-the-art retail counter and vending equipment to our lobbies.

We established a dedicated air transportation hub for Express Mail service and Priority Mail, a key factor in our ongoing programs to improve service performance for these important postal products. This hub was one element in stopping the slide in our Express Mail revenue.

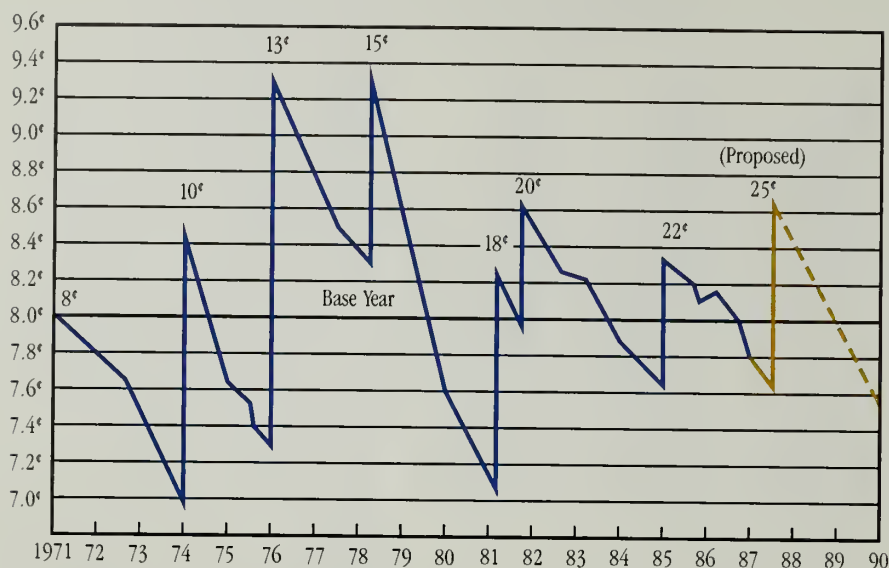
National Service Performance: Stamped First-Class Mail 1983-1987



Our financial and planning functions concentrated on improving our ability to anticipate and meet both the long- and short-term resource requirements of the system. These efforts were especially important during FY 1987, because the developing financial trends led to the initiation of a vigorous cost-management program which succeeded in paring costs by approximately \$149 million without a significant negative impact on service performance. Without these aggressive efforts to restrain our costs, our year-end losses would have been more severe.

More importantly, the experience gained during FY 1987 will help to make cost-containment a permanent part of the postal culture, which bodes well for the future financial integrity of the Postal Service and the continued pattern of relative rate stability for its customers. This experience will be increasingly important in the present fiscal year because of the mandated reductions in our operating and capital budgets previously discussed and our prior commitment to absorb a considerable portion of volume growth through increased productivity.

Real Price of a First-Class Stamp Price deflated by Consumer Price Index.



Measured against the effects of inflation, the price of First-Class postage has remained relatively stable since Postal Reorganization.

The Postal Service, of course, as part of its regular cycle, has planned for a general increase in postage rates during FY 1988. The revenues that can be expected from those adjustments, however, will not alleviate our need to manage every dollar prudently. We will be more than half way through our fiscal year before new rates can be implemented, and it is unlikely that new revenues generated by these rate adjustments will fully offset the impacts of the budget reductions and general increases in costs we are experiencing.

All of this puts added premium on programs tied to real, long-term increases in our productivity. Fortunately, in FY 1987 the Postal Service put its program to automate the processing of mail firmly back on track. Stalled as the year began, the acquisition of multiline optical character recognition (OCR) equipment was resumed. This equipment is an integral part of an automated system which processes letter mail from the time it enters a postal facility to the time it enters the hands of a letter carrier. The acquisition of this equipment will not be sacrificed in the present efforts to pare our capital investment programs. Deployment of multiline OCRs will commence in February and continue through 1989.

The decision to acquire multiline technology, however, was not a stand-alone proposition. The Postal Service's ZIP + 4 coding sales effort was further refined to emphasize reducing the combined costs that the Postal Service and its customers pay for processing and delivering the mail. The value of customer-applied ZIP + 4 codes was recognized in the Postal Service's rate filing. Expanded customer options, including incentives for customer-applied ZIP + 4 bar codes, were included in those rate proposals. It can be expected that those customers for whom ZIP + 4 rate incentives make economic sense will continue to apply the expanded code to their letter mail. At the same time, the conversion of our OCRs to multiline capacity will allow the Postal Service to achieve the benefits of automated sorting to the ZIP + 4 level on mail that does not carry the additional four digits.

In addition, the Postal Service continued to make capital investments in supporting mail processing equipment—both mechanized and automated—throughout the year. The Postal Service also continued to offer a range of other incentive programs, such as those associated with presorting of mail.

Technology, of course, will not move mail of and by itself. The Postal Service continues to rely on the efforts of its employees, and FY 1987 was not without achievement in the human resources area.

A Training and Development Department was created within the Human Resources Group to bring more resources to the training of managers and other employees so that they will work effectively in an environment increasingly affected by advances in information and electronic technology. This new department, working in concert with the Employee Relations and Labor Relations Departments, will assure that the Postal Service will have appropriate human resource strategies in place to support its growing commitment to technology, cost containment and customer-focused service initiatives.

The accords reached with the Mail Handlers Division of the Laborers International Union of North America, the American Postal Workers Union and the National Association of Letter Carriers were fair to the employees, to the Postal Service and to postal customers. Additionally, settlement on a new contract was reached with the Postal Service's fourth major union, the National Rural Letter Carriers' Association, in January 1988. The terms of this settlement followed the pattern previously reached with the other unions.

The removal of the acrimony that has marred



Personal contact is a major part of the Postal Service's efforts to better understand its customers' needs. Postmaster General Preston R. Tisch made more than 100 customer visits during FY 1987; here he discusses USA Today's mailing programs with publisher Cathleen Black.

previous collective bargaining efforts was significant, as all of the parties to these negotiations recognized that contention, particularly after the conclusion of negotiations, would do little to serve the interests of the Postal Service or its customers. The Postal Service, as a result, is poised to focus attention on resolving remaining labor-management issues affirmatively and, in the process, has the opportunity to reduce the numbers of grievances and EEO complaints that erode its effectiveness as a service enterprise.

Progress in all of these critical areas of the postal business is discussed in greater detail in the narrative of this annual report. In offering this brief overview, I admit to a sense of personal accomplishment which stems from the collective achievements of the men and women of the U.S. Postal Service.

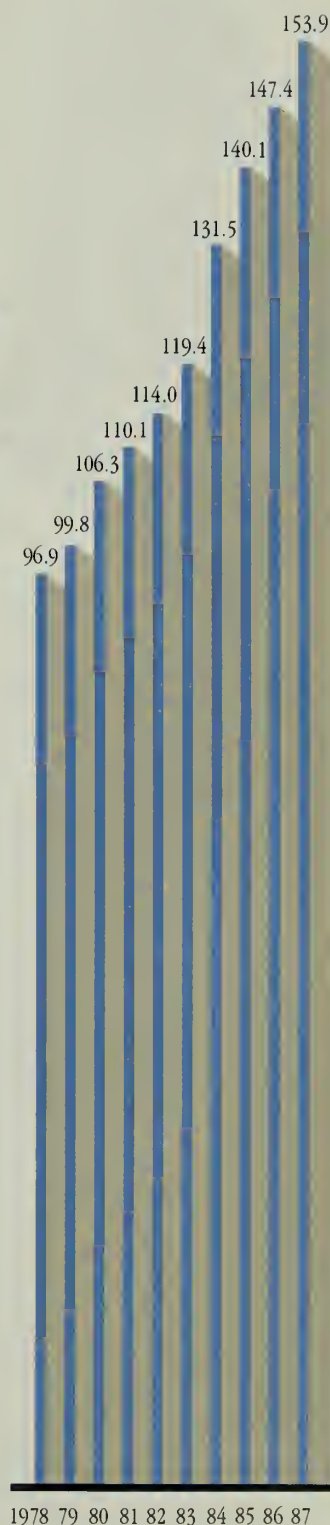
Based on the four decades of business life that preceded my tenure as Postmaster General, I believe that good companies are stable over time, are capable of responding positively to investments in technology and other modern business tools and have at their disposal the human resources required to use those tools to provide their customers with superior service.

That is a test that I believe the United States Postal Service passes with flying colors. Budget pressures notwithstanding, the Postal Service today is being better equipped than at any time in its history to meet the changing demands of the marketplace. These efforts must continue, and as we become better masters of the business principles driving the service sector of our economy, the men and women who comprise the nation's largest civilian work force will continue to build on a tradition of public service as old as our nation.

Preston R. Tisch

Preston R. Tisch
Postmaster General
of the United States
February 1988

Mail Volume 1978-1987
(pieces in billions)



U.S. POSTAL SERVICE FISCAL YEAR 1987 ANNUAL REPORT

As will be the case in FY 1988 and beyond, the challenges facing the Postal Service during Fiscal Year 1987 were obvious. The organization's management structure had just been realigned to focus more local resources on service to the customer; costs, as expected, were rising; mail volume was increasing; the need to increase productivity was apparent; and contract negotiations with the largest postal unions were scheduled.

To respond to these critical business issues, the Postal Service focused on four primary objectives: improving service and boosting customer acceptance of the Postal Service; containing costs and making investments to foster greater future financial stability; resuming its automation program to improve long-term productivity; and acting to promote increased harmony between labor and management.

During the year, as the 74 field divisions created during the previous year's management realignment overcame the growing pains associated with structural change, local managers were given greater autonomy to work more closely with customers to resolve problems and find opportunities for better service. Employees were challenged to know and serve their customers better. Headquarters and Regional managers supported the new Divisions by identifying and resolving transportation, service, procurement and other operating issues of broader scope.

The coordination of postal resources at all levels led to significant achievements in all four areas of its principal agenda.

SERVICE

The most ambitious and visible results in improving service were an unprecedented series of initiatives undertaken during the year to help reinforce the Postal Service's presence as a service company.

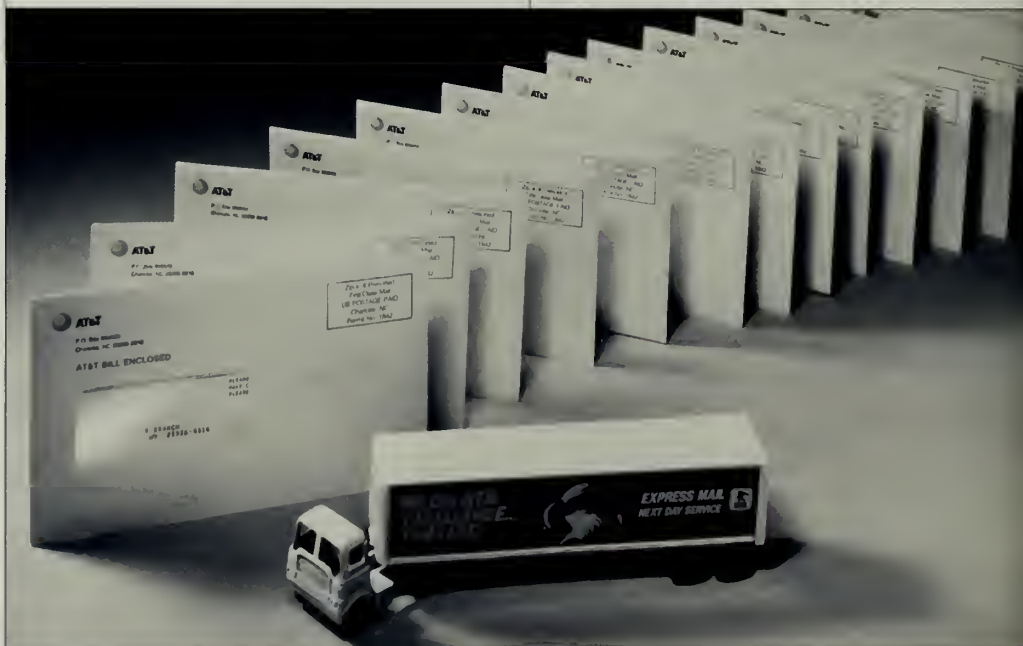
These initiatives were the results of a hard look at the competitive environment in which the Postal Service does business and its decision to take substantive steps to increase the effectiveness of the products and services purchased by postal customers. They occurred in two forms: one, a dynamic and forward-thinking refocusing of the Postal Service's marketing programs; two, a series of specific operations programs intended to improve the reliability and convenience of postal products and services.

Capitalizing on the establishment of a marketing organization within the newly-formed field divisions, the restructuring of the headquarters marketing organization was concluded. The Marketing and Communications Group began allocating resources to areas of the group dealing with discrete customer segments in Marketing, International Postal Affairs, Philatelic Affairs, Consumer Affairs and Communications. Within the Marketing function, the National Accounts Division was strengthened to concentrate on corporate level servicing and selling to the Postal Service's largest commercial customers. This effort

Close cooperation between AT&T and a Postal Service national account representative is anticipated to save AT&T well over \$15 million a year through the use of pre-barcoding and manifest payment. AT&T will send and receive enough mail to fill more than 3000 large semi-trailers annually.



Mail order specialist Talbots is among USPS customers taking advantage of the new national change of address system. Through the use of NCOA, Talbots found new addresses of old customers, eliminated duplicate mailings and reduced undeliverable mail.



was supported by the Postmaster General and other senior managers who made more than 100 in-person visits to corporate CEOs to discuss ways that the Postal Service and national mailers can work more closely together. In addition, the Commercial Accounts Division developed action programs to maintain personal contact among postal customer account representatives and approximately 60,000 additional major business mailers outside the scope of National Accounts.

The results were positive. More than one billion additional pieces of First-Class Mail carried the expanded ZIP + 4 code this year. Numerous service problems were identified and postal operations people began working directly with key segments of the industry on corrective solutions. The Postal Service stemmed the slide in its Express Mail business as volume grew by three percent. It also recovered some lost parcel volume after meetings with several customers.

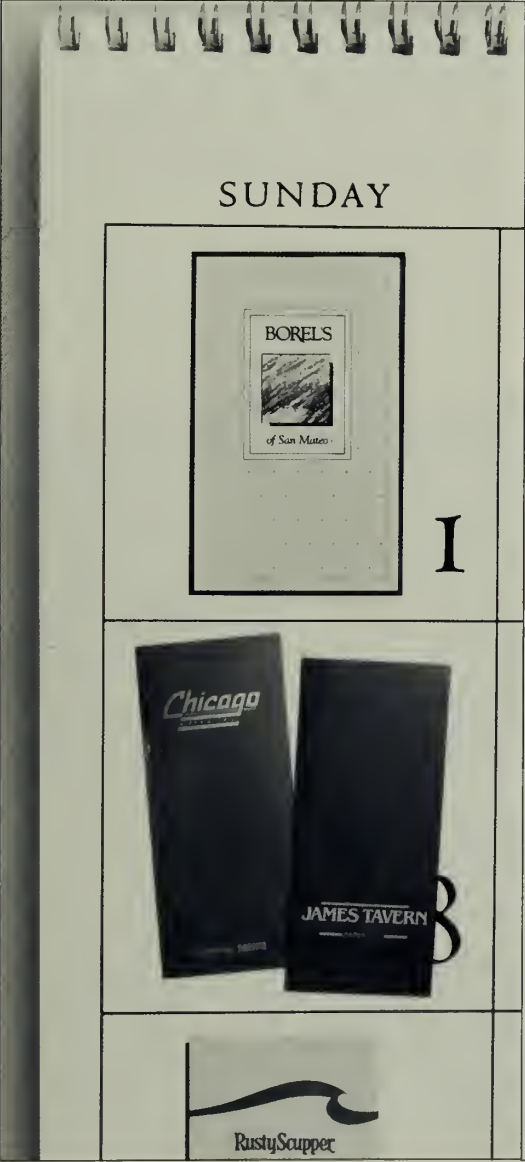
Speaking before National Postal Forum East, one of five Regional Postal Forums held throughout the country during the year, Postmaster General Tisch acknowledged that these results were good for the Postal Service. He added, however, "The results of these meetings—from the customer's perspective—present an even more impressive picture. A restaurant chain in the Midwest is saving \$50,000 a year by giving us their Express Mail business. A national newspaper will tap into our new reduced rates and get the added convenience of Express Mail International Service for communications with its foreign bureaus. A major catalog mailer sat down with his postal Division managers and worked out a plan to take advantage of previously-overlooked incentive programs. The results? Savings of about \$3 million a year. A major bank took a second look at its stalled ZIP + 4 conversion and turned those four extra digits into seven-digit savings in its postage bill—more than \$1 million, in fact. The list could go on and on."

Throughout the year, marketing activities included extensive market research to determine customers' needs and expectations, to assess opportunities to improve service, and to test results of various programs implemented by the Postal Service.

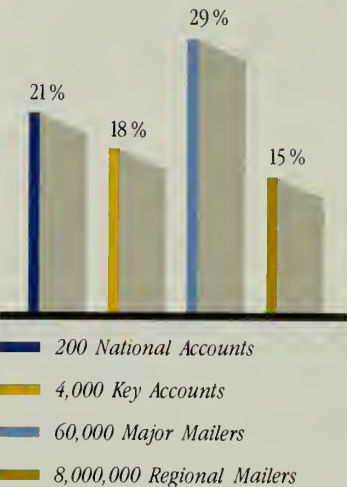
(right) When Sunday delivery of payroll information and month's end reports for its national chain of restaurants was on the Stouffer's menu, only Express Mail Service fit the bill. Only Express Mail delivers weekends and holidays without additional charges.



Time is money in the credit card business, and American Express is among the firms testing specialized applications of Express Mail Service to meet its needs. AmEx's test consolidates records of charge for immediate shipment to a processing center. The economy of Express Mail cuts the firm's mailing costs, and quick turn-around and consistent on time performance improves its service relationship with participating banks.

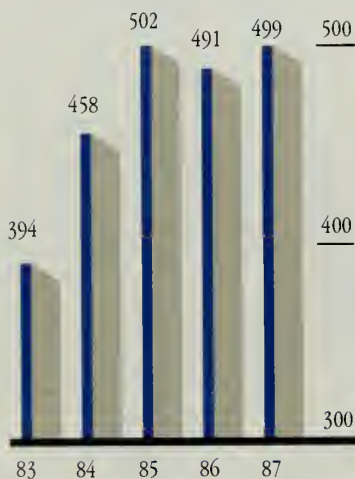


Commercial Customer Segmentation by Volume



Business mail accounts for 83% of all originating mail. Of the remaining 17% approximately 11% is responses to business and 6% is household to household.

Domestic Express Mail Revenue
(dollars in millions)



Throughout the year, operational program support was provided for new marketing initiatives. Nowhere was this support more visible than in the efforts to restore the Postal Service's Express Mail Overnight Service and Priority Mail offerings to positions of leadership in the expedited shipping marketplace.

The Postal Service, which pioneered the development of expedited mail services, moved to increase the reliability of Express Mail Service and Priority Mail. It signed a contract for a dedicated hub and spoke air transportation system. Operating from a hub at Terre Haute, Indiana, the Postal Service established a new network linking over 45 cities through 23 major domestic airports.

The greater flexibility offered by the hub allowed the Postal Service to implement a new "earlier bird" delivery of Express Mail packages. Most deliveries are now made by noon, hours ahead of the 3 p.m. service standard for Express Mail Overnight Service. The reliability of the new network was demonstrated in the fourth quarter of the year, when Express Mail on-time delivery performance was 97.4 percent, a new record for a single quarter. Topping that, in the final accounting period of the year (August 29 to September 25), was an all-time performance record for any four-week period of 97.8 percent.

Airplanes flying the postal colors (like this one at Boston's Logan Airport) became visible symbols of the increased reliability that a new hub-and-spoke transportation operation is bringing to the Postal Service's Express Mail Service and Priority Mail products.

The commencement of morning delivery for Express Mail Service was one of a series of convenience and service enhancements undertaken or tested during the year. The network of collection boxes was expanded; credit card payment was tested in five cities; and plans were undertaken to provide for a tracking/inquiry service for Express Mail shipments. Simplified and innovative rate structures for both Express Mail Service and Priority Mail were included in the Postal Service's general rate filing in May. New Express Mail International rates were designed and will allow customers to reach 69 foreign countries for as little as \$13 to \$18.



When McDonald's launched a national effort to bring salads to its stores across the country, it chose direct mail to get the word out. Some 35 million American households received mailed coupon packets during June, which added to the crisp growth in third-class mail volume during the year.





Among the options customers receive when selecting Express Mail Service for their overnight deliveries is innovative packaging—envelopes, boxes and tubes—provided free of charge.

The introduction of a new Express Mail Military Service offers expedited service to military personnel stationed in Europe, Panama and the Pacific area and to their families and other correspondents.

These product enhancements follow earlier postal innovations, including a waiver option to allow delivery without the addressee's signature, the addition of Express Mail C.O.D. service, and the provision of colorful containers including an Overnighter envelope, tube and box and the 2-Pound Pak.

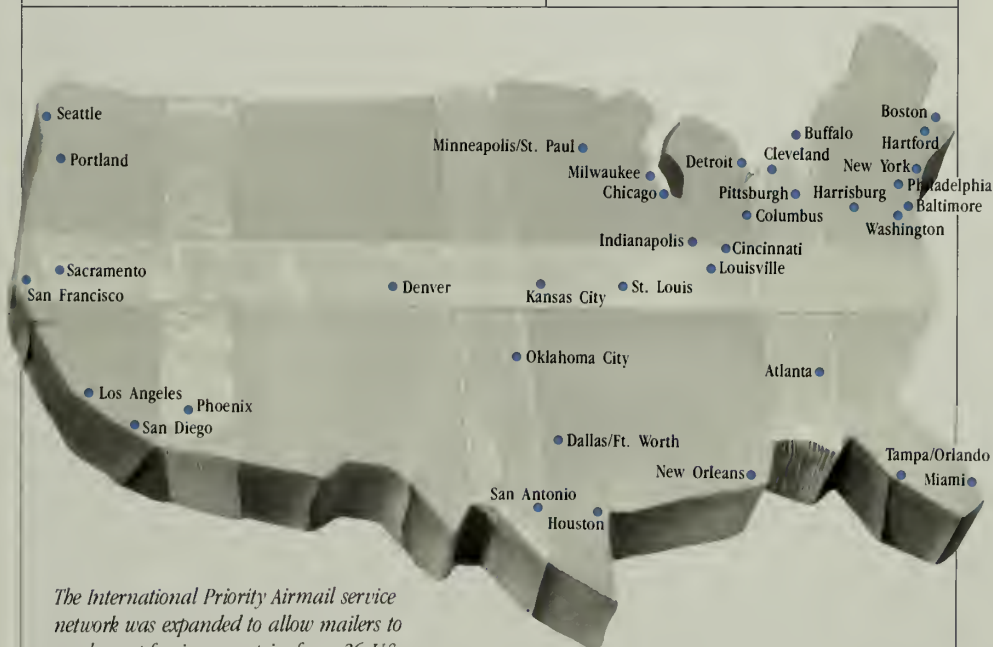
Other important segments of the Postal Service's customer base also received considerable attention during FY 1987. Numerous initiatives were introduced into the international mailing arena.

The International Priority Airmail network was expanded from 30 to 36 market areas. The International Surface Airlift program was redesigned to provide simpler customer access through an acceptance network which grew from 10 to 36 U.S. cities. Express Mail International Service was expanded to 15 additional countries. And, INTEL-POST continued to provide customers with rapid facsimile transmission services to 33 countries, including China, Cyprus, Iceland, Israel, Papua New Guinea and Singapore, which were added to the network during the year.

During FY 1987, the Postal Service also became a participant in the European Overnight System, a 12-nation network designed to improve international expedited mail service. Many of the administrations involved in the EOS, which operates from a permanent hub in Brussels, also agreed to develop a new business letter service to

meet the needs of business mailers. The Postal Service's International Priority Airmail service will be part of this new service offering.

The Postal Service participated in bilateral efforts to improve service with the postal administrations of Australia, Canada and Mexico. The Postal Service also participated in international mail transit time surveys conducted by the Universal Postal Union. And, preparations for the 1989 Congress of the Universal Postal Union, to be held in Washington, D.C., moved forward with the establishment of a headquarters UPU operations office.



The International Priority Airmail service network was expanded to allow mailers to reach most foreign countries from 36 U.S. markets.



Among the most popular postage stamps issued in Fiscal Year 1987 were the North American Wildlife stamps, the Constitutional Anniversary series, the commemorative locomotive booklet and the special occasions booklet.

The Philatelic and Retail Services Department shepherded the introduction of a new consumer convenience program, "Stamps by Phone" which is being tested in several U.S. cities. The new service, which could be introduced nationally in FY 1988, allows customers to order stamps over the telephone and pay for them with credit cards.

Sales of philatelic items amounted to \$169.8 million, making FY 1987's stamps program one of the most profitable in postal history.

To meet the needs of philatelists and general consumers, the Postal Service released 44 stamp and stationery issues during the year, among them the popular 50-stamp pane of North American Wildlife stamps. A booklet of five stamps bearing words of the preamble to the Constitution, a commemorative stamp honoring its signing, three statehood stamps and a postal card honoring the Constitutional Convention began the Constitution Anniversary series. A unique philatelic item introduced in FY 1987, was a booklet of special occasion stamps, issued in response to numerous requests by customers. Following on the high acceptance of the Love Stamps, the new stamps featured messages suitable for Mother's Day, Father's Day, congratulatory occasions and other special events.

The growing interest in philatelic cancellations resulted in the approval of 1,500 separate cancellations for more than 800 communities. Special postmarks were offered at 10 National Parks in connection with the sale of the Wildlife stamps.

Unique cancellations also celebrated various events of the Tenth Pan American games held in Indianapolis, Indiana.

Some product innovations undertaken during the year were more technical in scope. A change in printing process, from intaglio to gravure, began with the new 22-cent Flag Stamp. The change is expected to reduce stamp production costs by \$1 million annually. Also, by modifying booklet production machines, the Postal Service increased the commemorative booklet size from 10 stamps to 20 to make larger quantities of these stamps available in postal vending machines.

Tests began to print stamps on prephosphored paper to improve their appearance and to combat illegal "stamp washing." Because traditional phosphorus coatings reduced the brilliance of printing inks, the new method will increase the stamps'



Stamps by Phone, offered experimentally in nine cities in FY 1987, received enthusiastic response from customers and is likely to be expanded nationwide in FY 1988. Minimum orders (\$11 plus \$2 service charge) for First-Class and Express Mail stamps are paid for by major credit cards.



More than 500 post offices adjusted their retail hours during the year to accommodate their customers, bringing the total number of offices to join in this nationwide program in the past two years to 3,500.

beauty and will permit cancellation ink to penetrate more deeply, which will help to foil efforts to wash and resell used stamps for use as postage.

The needs of individual consumers and small businesses also received considerable attention during FY 1987. More than 500 additional post offices adjusted their service hours to suit the needs of their customers, bringing the total number of offices across the country which have added this convenience to 3,500. More state-of-the-art automation is being used for postal retail window transactions than ever before, and although the present restraints on new capital commitments are likely to slow some of these programs, modern vending equipment will continue to be added to postal lobbies and off-site retail centers.

To improve responsiveness to customer questions and reduce clerical costs, an automated telephone information service, the Postal Answer Line, was tested during the year. Test data revealed that 87 percent of the customers had their questions fully or partially answered through this new service. The Postal Answer Line system is scheduled for national expansion, although those plans, too, are being reevaluated in light of budget pressures during FY 1988.

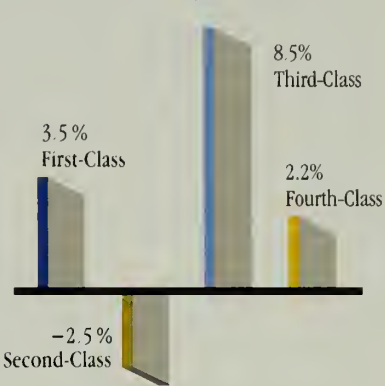
Protection of the mail system and postal consumers was the Postal Inspection Service's contribution to the success of FY 1987. The Inspection Service completed 1,909 mail fraud investigations and obtained 1,206 convictions. It initiated almost 4,500 civil/administrative actions and discontinuances against mailers who misrepresented their products or services through the mails; arrested 242 individuals for receiving or sending child pornography through the mails; and arrested 347 persons for trafficking in narcotics or controlled substances. Postal Inspectors also investigated 114 robberies, 645 burglaries, 950 assaults, 1,340 mail thefts from vehicles or collection boxes and made

3,218 arrests for all theft of mail by non-postal persons. In addition, inspectors investigated and prosecuted 3,942 cases in which employees or contractors were involved in mail theft, financial crime, Workers' Compensation fraud and drug-related activities.

Overall, service performance for the year remained high. Overnight Stamped First-Class Mail equaled its FY 1986 performance of 96% delivery within standards. Overnight delivery of metered First-Class Mail was achieved 92.3% in FY 1987, compared to 91.5% in FY 1986. Other major service categories remained at historic high levels, continuing a trend begun in FY 1986.

(below) This demonstration lobby design emphasizes better service and a more pleasing environment for postal customers. Evaluations of this and other designs led to guidelines for architects which will promote the use of future cost-effective lobby features.

Growth in Volume by Class FY 1987



Quality of Services - % Excellent/Good



(right) Consumers continue to give the Postal Service high marks for the quality of services provided, compared to those of other service companies. USPS is usually near or at the top in comparisons of this type.

The above chart is based on an April 1987 Roper Report.

FINANCES

In May 1987, the Postal Service proposed general postage rate adjustments in response to rising postal costs, including a 25-cent First-Class stamp and overall increases for all classes of mail averaging 16 percent. In March 1988, the Postal Rate Commission will issue a recommended decision on the new rates.

The Postal Service incurred a \$223 million loss in FY 1987, compared with net income of \$305 million in Fiscal 1986. Over the past 10 years, the Postal Service has recorded five surpluses and five losses. Total revenues have exceeded expenses by approximately \$560 million for that decade. The FY 1987 loss was less than one percent of total revenue, and was \$41 million lower than the projected loss of \$264 million anticipated at the beginning of the fiscal year.

The Federal Employees Retirement System (FERS) implemented during the year resulted in new costs of \$260 million. Health benefit premiums jumped approximately 25 percent in January 1987, and total health benefit costs rose \$168 million over FY 1986. New health benefit costs for postal employees who retired after 1986 totaled \$10.3 million.

Cost-containment efforts rigorously applied during the year reduced expenditures by approximately \$149 million to help offset some of the increase in these operating costs.

Total factor productivity (TFP) in the Postal Service increased 0.1 percent in FY 1987. This methodology, which has been used since 1985, takes into account the share of mail volume processed by mailers, increased use of automated and

mechanized equipment, facilities development and the growing postal delivery network in measuring postal efficiency.

From 1972-1986, the Postal Service's average improvement in total factor productivity was 0.3 percent per year, essentially the same rate of improvement noted for the non-farm sector of the private economy for the period in a similar measure published by the Bureau of Labor Statistics.

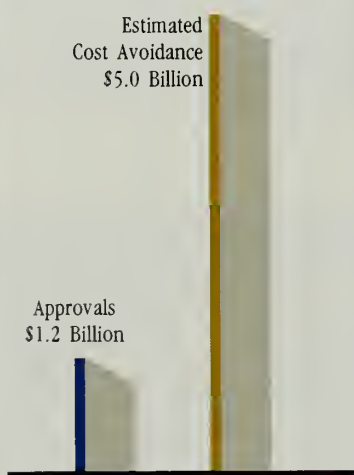
Recognizing that modernizing postal operations is critical to keeping pace with volume growth and customers' service expectations, the Postal Service made FY 1987 capital commitments of \$2.18 billion.

Some \$330 million was committed to mail processing equipment, a four-fold increase over FY 1986. Investment in optical character readers (OCRs) and bar code sorters (BCSs) continued. While mail is still sorted manually and with mechanized multi-position letter sorting machines, the evolutionary process of automating mail processing is accelerating. In addition to these improvements, the Postal Service also continued modernization of its vehicle fleet. During FY 1987, the Postal Service accepted delivery of more than 3,000 new Long Life Vehicles (LLVs), the first of 99,150 planned for delivery over the next few years. Long-term savings of \$6 billion are projected from the LLVs, because of their durability and lower fuel usage. And 1,962 intermediate delivery vans, 122 tractors and 407 semi-trailers also were added to the postal transportation fleet in FY 1987.

The facilities budget of \$1.1 billion for FY 1987 brought several major construction projects into operation. Included were a new airport mail facility in Chicago; general mail and vehicle maintenance facilities in Las Vegas, Nevada and San Jose, California; a mail processing facility in Mid-Island, New York; a general mail facility in Nashville, Tennessee; and an engineering support center in Northern Virginia. Another 181 postal-owned facilities costing \$291 million were completed, and 882 additional projects were underway. In addition to these improvements, construction continued on the new Technical Training Center at Norman, Oklahoma.

Two innovative ground-leasing projects also were announced in FY 1987, in mid-Manhattan, New York and downtown New Orleans, Louisiana. The eight-story Grand Central Station facility in New York will be redeveloped into a 40-story, \$300 million commercial office building, to be com-

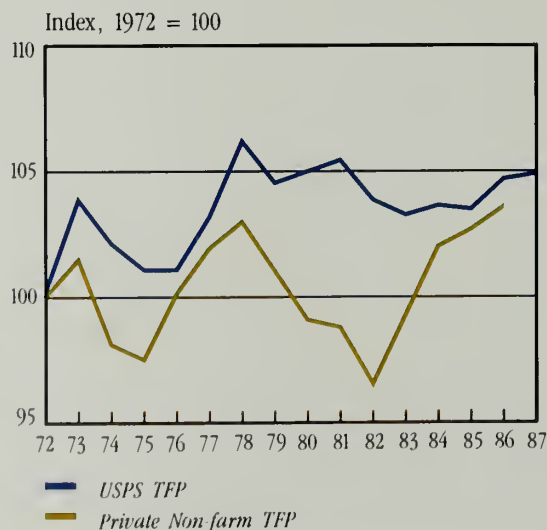
Financial Impact of FY 1987 Major Project Approvals



Total Factor Productivity: USPS vs. Private Non-Farm Sector

Since 1985, the Postal Service has measured Total Factor Productivity (TFP). This chart reflects the calculation of (TFP) back to 1972. Postal Service Total Factor Productivity (TFP) has grown 0.3% per year on average, essentially the same as the entire private non-farm sector.

Source: USPS and Bureau of Labor Statistics



pleted in 1992. Similarly, downtown New Orleans will see the post office land next door to the Louisiana Superdome become a multi-story shopping center property.

Fiscal Year 1987 also began a three-year transformation of the postal procurement system. A new, simplified-language procurement manual was introduced. In keeping with goals of decentralizing postal management authority, the new manual emphasizes policy and process rather than procedures. It combines the most advantageous aspects of public and commercial procurement policy, permitting contracting officers to use business judgment in making procurement decisions.

To support the new policy, a comprehensive training program for contracting officers began in October 1987 and will be completed during 1988.

Further initiatives were made in postal materials management. The Rapid Equipment Deployment Inventory (REDI) was introduced in FY 1987. Designed to slash local "just in case" equipment hoarding, and to quickly meet the fluid operational needs of Procurement and Supply's customers, REDI has cut the lead time required to fill field orders from months to 3 to 5 days.

The Postal Service remains concerned, of course, that the progress made in FY 1987 will be slowed by the mandated cap on new capital commitments. The interruption of its FY 1988 facilities construction program will require a complete reordering of priorities and a reassessment of the five-year capital investment plan approved during FY 1987. That plan would have committed almost \$12 billion to new facilities, vehicles and equipment.



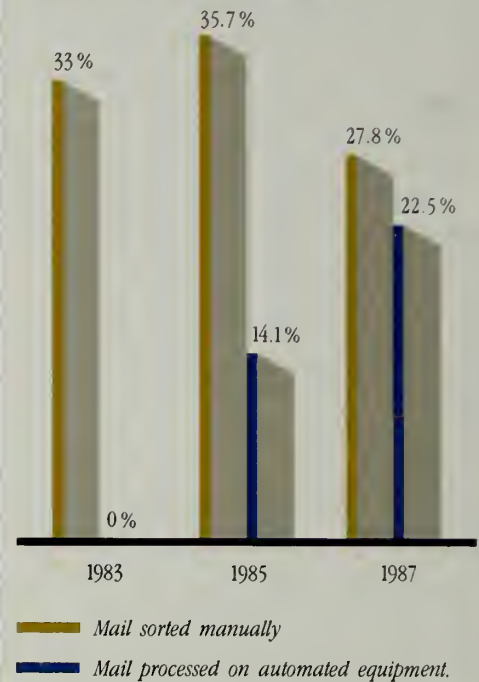
(top) A multi-level shopping complex in the shadow of the Louisiana Superdome will rise into the New Orleans skyline in the future, one of two unique ground leasing projects approved by the Postal Service in FY 1987.

(center) The first of the Postal Service's fleet of Long Life Vehicles began leaving Grumman's assembly plant in Pennsylvania and were pressed into service during the year. The revolutionary vehicles are expected to last an average of 24 years and save \$6 billion in operating costs.

(right) The modern processing and vehicle maintenance facility in Las Vegas was one of seven new major mail processing plants brought into operation in FY 1987.

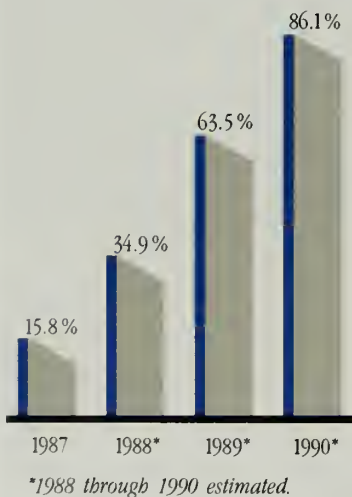


Comparison of Mail Processing Mix



Most of the Postal Service's optical character readers will be altered to read multiple lines of an address, which will enable these sophisticated machines to process more mail to the ZIP + 4 code level.

Percent of Window Transactions Processed on Automated Equipment



AUTOMATION AND TECHNOLOGY

A continuing element in the capital investment, procurement and cost-containment strategies of the Postal Service is bringing increased automation to postal retail and mail processing operations. In assessing the adjustments to capital spending required by the deficit reduction legislation, care was taken to preserve purchases of equipment with high return-on-investment value and potential for long-term productivity improvement. During FY 1987, the Postal Service accepted delivery of some 150 bar code sorters and 145 optical character readers, part of a procurement of more than 400 single-line OCRs. It also resumed its program to acquire multiline reading capability for those OCRs. Successful tests of the multiline conversion package were completed in Denver, and the conversion of these OCRs to multiline will continue through May 1989. These new machines will contain address directories and will be capable of processing OCR-readable letter mail to the ZIP + 4 code level. They are expected to augment customer application of the expanded

ZIP Code, which provides the grid on which all mail will eventually be processed.

The Postal Service also awarded contracts for 70 flat mail cancellers and ordered 44 additional multi-position letter sorting machines for processing mail in high-growth field divisions. An additional 180 multi-position flat sorting machines were ordered, and deliveries began in the fall of 1987. All of these machines will be in full use by mid-1988.

The Postal Service continues to use its technological resources to aggressively attack service problems, particularly those relating to undeliverable-as-addressed mail. Studies indicate that 33 percent of all mail carries addresses containing one or more errors. The introduction and expanded use of the National Change of Address System (NCOA) during the fiscal year was a key step in resolving quality-of-addressing problems.

Innovative improvements to postal management information systems are being planned to replace outdated methods of collecting, controlling and distributing data on which the Postal Service relies. Some of these new systems, however, will be delayed as a consequence of the operating budget and capital budget adjustments necessary in order to meet the requirements of the Budget Reconciliation Act.



Innovative retail concepts being studied by the Postal Service include the Automated Postal Teller, which may bring postal products to future postal customers in much the same manner as automated tellers handle routine banking transactions today.

Window and retail vending equipment have been among key capital investments to improve customer service. Although these programs will be slowed somewhat by the capital investment limitations imposed for FY 1988, FY 1987 provided a major expansion of their use in post offices throughout the country. By year's end, there were 8,300 Integrated Retail Terminals deployed. More than 30,000 new or modernized vending machines also were deployed.

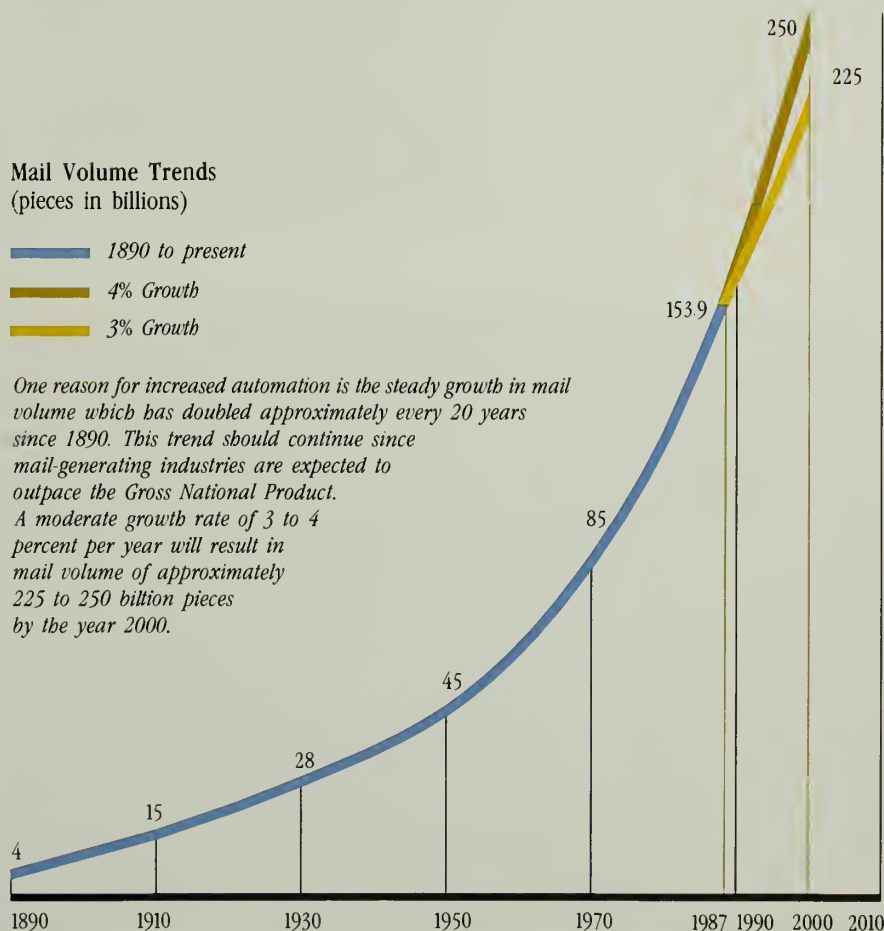
Plans were completed in FY 1987 for a third Advanced Technology Conference to be hosted by the Postal Service in 1988. This conference will enable the Postal Service to continue to tap the intellectual resources of the world's leading experts in advanced technology and materials-handling concepts.



The Postal Service acquired state-of-the-art equipment for processing flat mail and continues to explore advanced technological concepts for processing all types of non-letter-sized mail. Shown above is an experimental system being developed to sort small parcels and flat mail. Such advanced technology is expected to be available in the early 1990's.

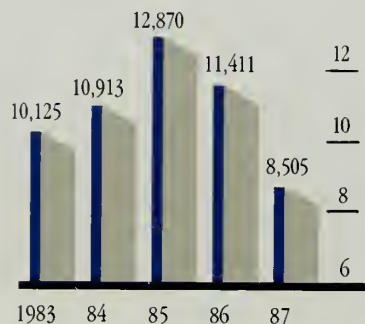
Mail Volume Trends (pieces in billions)

- 1890 to present
- 4% Growth
- 3% Growth



One reason for increased automation is the steady growth in mail volume which has doubled approximately every 20 years since 1890. This trend should continue since mail-generating industries are expected to outpace the Gross National Product. A moderate growth rate of 3 to 4 percent per year will result in mail volume of approximately 225 to 250 billion pieces by the year 2000.

Formal Equal Opportunity Complaints

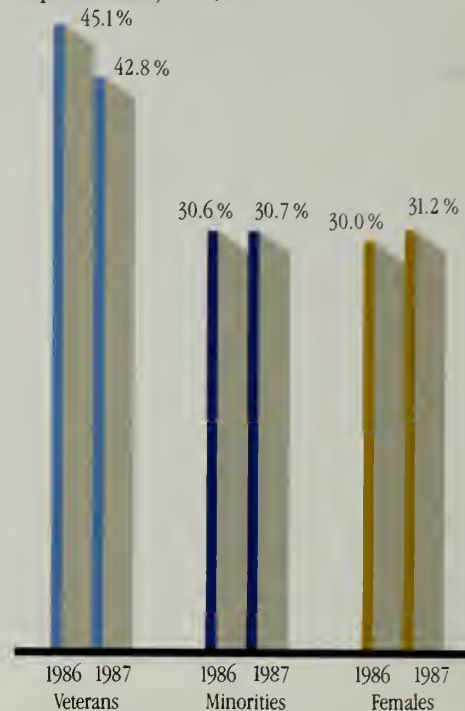


HUMAN RESOURCES

A key issue during FY 1987 was the negotiation of new contracts with postal unions representing approximately 579,000 employees represented by the three largest postal unions. In an unprecedented move, Postmaster General Tisch personally opened negotiations with the leaders of the National Association of Letter Carriers, the American Postal Workers Union and the Mail Handlers Division of the Laborers International Union of North America. The contracts were successfully negotiated, signed and ratified by the members of the three unions. The major provisions were: for each bargaining unit employee's grade and step, effective July 18, 1987, an increase to basic salary equal to two percent of base salary; \$250 increases to basic annual salary on July 16, 1988 and January 14, 1989; \$300 increases to basic salary effective July 15, 1989 and January 27, 1990; and a \$200 increase to basic salary July 28, 1990. The Cost of Living Adjustments (COLAs) remained unchanged except for one payment to cover the additional four-month term of the contracts. Allowances for uniforms and work clothes were increased 10 percent, while benefit provisions for health plans and insurance remained unchanged from the previous contract. Subsequent settlements with smaller unions mirrored the terms of those reached in July.

Following the labor negotiations, pay consultations with the management associations were completed. The new 40-month Executive Administrative Schedule (EAS) compensation package provided: Four successive annual salary increases of

Veterans, Minorities, Female Representation, FY 1987



2.8 percent, 2.4 percent, 2.6 percent, and 1.2 percent; elimination of the 75 percent COLA limitation for EAS-24 and above employees, and a change in the COLA/salary cap from a fixed dollar amount (\$55,000) to a floating reference point, the maximum basic salary for EAS-26; and continuation of semiannual cost-of-living adjustments.

To address its needs for a well qualified work force, the Postal Service created a Training and Development Department which is charged with responsibility for one of the nation's largest business training programs, one that affects every level from craft and technical jobs to supervisor and executive ranks. The Postal Service conducted pilot courses for advanced training of retail clerks. This new training program recognizes the quality of point-of-sale transactions as one of the most important interactions between customers and employees. In total, more than 13.6 million training hours were provided in the year, of which approximately 6.6 million were delivered or coordinated by the 189 Postal Employee Development



Employees in Santa Ana, CA, undergo a unique form of training. Under the assumption that practice makes perfect, trainees are videotaped and have the opportunity to review how they handle customer interaction.

Centers. The Postal Service spent \$86.6 million for all types of training during FY 1987. This does not include the salary costs of those receiving training or of the local training staff.

The Postal Service tested more than 1.6 million applicants for skilled and unskilled positions. Active recruitment continued to improve the Postal Service's performance against its affirmative action goals. And, for the fifth consecutive year, the Postal Service exceeded its goal for hiring of handicapped individuals.

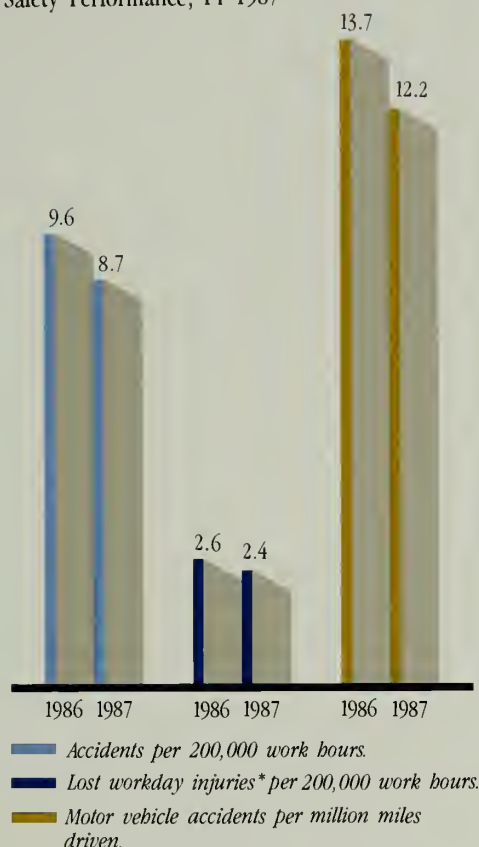
Added emphasis was placed throughout the year on resolving Equal Employment Opportunity (EEO) complaints through informal counseling. This program produced dramatic results; 83.5 percent of EEO complaints were settled or resolved at the informal stage and never became formal complaints. During the year, 8,505 formal EEO complaints were filed, 25.5 percent fewer than Fiscal 1986.

The continuing emphasis on safety during FY 1987 also produced positive results. The total number of accidents dropped to 62,353 in FY 1987 from 66,625 in FY 1986. Injuries resulting in lost workdays decreased from 18,141 in FY 1986 to 16,952 in FY 1987. Postal vehicle accidents decreased from 20,995 in FY 1986 to 18,831 in FY 1987.

The Employee Assistance Program (EAP) provided assistance to 12,600 employees attempting recovery from alcohol or drug abuse.

The Employee Involvement/Quality of Work Life (EI/QWL) process was expanded and is now operational in every division and management sectional center. Approximately 4,850 work teams or quality circles meet regularly to address issues such as communications, labor/management and supervisor/employee relationships, physical working conditions and business issues. Creative methods of improving service are encouraged and have resulted in innovative improvements in postal operations and how the Postal Service does business with its customers.

Safety Performance, FY 1987



*A lost workday injury is one which results in time away from work beyond the date of injury.

In Charlotte (NC) Plaza, customers take advantage of a service cart, suggested by an employee brainstorming session, which brings the post office to them. They buy stamps and Express Mail, have postage meters set, register mail and conduct other business that previously required a trip to the post office. The cart helps take pressure off lines at a nearby post office.



FINANCIAL STATEMENTS

BALANCE SHEETS

UNITED STATES POSTAL SERVICE

Sept. 30, 1987

Sept. 30, 1986

Assets

(dollars in thousands)

Current assets

Cash	\$ 26,922	\$ 128,863
U.S. Government securities, at amortized cost which approximates market	4,592,129	3,823,227
Receivables		
Foreign countries	339,624	269,747
U.S. Government	154,846	200,066
Accrued interest	52,896	17,207
Other	54,509	79,447
	601,875	566,467
Less allowances	21,853	23,739
	580,022	542,728
Supplies, advances and prepayments	141,451	163,702
Total current assets	5,340,524	4,658,520

Other assets—Note 4	21,104	19,377
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Property and equipment, at cost—Note 4

Buildings	5,462,994	4,682,636
Equipment	3,440,913	2,992,949
Land	837,640	687,323
	9,741,547	8,362,908
Less allowances for depreciation	3,113,803	2,774,448
	6,627,744	5,588,460
Construction in progress	1,538,895	1,359,508
Leasehold improvements, net of amortization	175,123	145,270
	8,341,762	7,093,238

Deferred retirement costs—Note 3	18,383,823	18,043,047
	<u>\$32,087,213</u>	<u>\$29,814,182</u>

See notes to financial statements.

Sept. 30, 1987

Sept. 30, 1986

Liabilities and Equity

(dollars in thousands)

Current liabilities

Compensation and employees' benefits	\$ 2,074,855	\$ 1,768,690
Estimated prepaid postage	1,084,000	1,019,000
Other accounts payable and accrued expenses	893,943	835,856
Deferred revenue	678,472	614,276
Outstanding postal money orders	390,963	360,587
Current portion of long-term debt	293,200	141,800
Amounts payable to other U.S. Government agencies	<u>187,699</u>	<u>106,262</u>
Total current liabilities	5,603,132	4,846,471

Long-term debt, less current portion—Note 4	4,434,623	3,092,649
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Other liabilities

Amounts payable for retirement benefits—Note 3	17,934,734	17,630,261
Workers' compensation claims	3,118,000	3,048,000
Employees' accumulated leave	838,497	814,933
Other	<u>20,000</u>	<u>20,000</u>
	21,911,231	21,513,194

Commitments and contingencies—Notes 3, 5 and 6

Equity

Capital contributions of the U.S. Government	3,040,251	3,041,206
Deficit from operations since commencement on July 1, 1971	(2,902,024)	(2,679,338)
	<u>138,227</u>	<u>361,868</u>
	<u>\$32,087,213</u>	<u>\$29,814,182</u>

See notes to financial statements.

STATEMENTS OF OPERATIONS AND CHANGES IN EQUITY
UNITED STATES POSTAL SERVICE

Year Ended
Sept. 30, 1987

Year Ended
Sept. 30, 1986

	(dollars in thousands)	
Operating revenue	\$31,528,112	\$30,102,091
Appropriations for revenue forgone for certain classes of mail—Note 2	<u>650,000</u>	<u>715,836</u>
	32,178,112	30,817,927
Operating expenses		
Compensation and employees' benefits	27,228,844	25,575,894
Other	<u>5,290,845</u>	<u>5,140,701</u>
	<u>32,519,689</u>	<u>30,716,595</u>
Income (loss) from operations	(341,577)	101,332
Interest income	<u>327,186</u>	<u>316,838</u>
	(14,391)	418,170
Interest expense	<u>208,295</u>	<u>113,562</u>
Net income (loss)	(222,686)	304,608
Equity—beginning of year	361,868	58,364
Capital equipment transferred to U.S. Government	(955)	(1,104)
Equity—end of year	<u>\$ 138,227</u>	<u>\$ 361,868</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
UNITED STATES POSTAL SERVICE

Year Ended
Sept. 30, 1987

Year Ended
Sept. 30, 1986

Sources of working capital

(dollars in thousands)

From operations

Net income (loss)	(\$ 222,686)	\$ 304,608
Charges to operations not requiring outlays of working capital		
Amortization of deferred retirement costs	462,556	474,477
Depreciation and amortization	414,290	387,409
Provision for noncurrent Workers' Compensation claims	70,000	272,000
Increase in employees' accumulated leave	<u>23,564</u>	<u>38,812</u>
Total sources from operations	747,724	1,477,306
Increase in long-term debt	1,483,600	1,250,000
Increase in noncurrent amounts payable for retirement benefits	<u>753,562</u>	<u>968,433</u>
Total sources	2,984,886	3,695,739

Uses of working capital

Additions to property and equipment, net	1,662,814	1,246,960
Additions to deferred retirement costs	803,332	945,931
Payment of retirement principal (OPM)	449,089	472,748
Decrease in long-term debt	141,626	140,614
Increase (decrease) in other assets	1,727	(819)
Capital equipment transferred to U.S. Government	<u>955</u>	<u>1,104</u>
Total uses	<u>3,059,543</u>	<u>2,806,538</u>
Decrease (Increase) in working capital deficiency	(\$ 74,657)	\$ 889,201

Changes in components of working capital

Increase (decrease) in current assets

Cash and U.S. Government securities	\$ 666,961	\$ 1,308,115
Receivables	37,294	122,370
Supplies, advances and prepayments	(22,251)	(6,706)
	682,004	1,423,779

Increase (decrease) in current liabilities

Compensation and employees' benefits	306,165	130,086
Estimated prepaid postage	65,000	65,000
Other accounts payable and accrued expenses	58,087	176,724
Deferred revenue	64,196	49,461
Outstanding postal money orders	30,376	58,277
Current portion of long-term debt	151,400	50,000
Amounts payable to other U.S. Government agencies	<u>81,437</u>	<u>5,030</u>
	756,661	534,578
Decrease (Increase) in working capital deficiency	(\$ 74,657)	\$ 889,201

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS
UNITED STATES POSTAL SERVICE
SEPTEMBER 30, 1987 AND 1986**

**Note 1
Postal Reorganization
and Accounting Policies**

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease

period or their useful life. Repairs and maintenance costs which do not materially extend the life of assets are expensed as incurred.

Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to approximately \$30,000,000 in fiscal year 1987 and \$23,000,000 in fiscal year 1986.

Workers' Compensation costs are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends and other factors.

Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

Amounts payable for retirement benefits reflect the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the Fund) arising from increases in basic pay in an amount equal to the present value of the equal annual installments due to the Fund and payable over a 30-year time period. Amounts applicable to operations of future years are charged to deferred retirement costs and are subsequently amortized through operating expenses.

Effective with the passage of Public Law 99-272, the Postal Service became responsible for paying the employer's share of health benefits for its career employees retiring on or after October 1, 1986. These costs totaled \$10 million in fiscal year 1987.

**Note 2
Operating Appropriation**

The Postal Reorganization Act authorizes the Postal Service an annual appropriation equal to revenue forgone for providing certain mail services free or at reduced rates. Operating appropriations for revenue forgone received during fiscal years 1987 and 1986 totaled \$650,000,000 and \$715,836,000, respectively.

Note 3 Retirement Programs

Description of Plans and Contribution

Rates—The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the Civil Service Retirement Program (the Program). Under this Program, the Postal Service and employees hired prior to January 1, 1984 each contribute seven percent of basic annual salary to the Civil Service Retirement and Disability Fund (the Fund) and 1.45 percent of gross wages for Social Security for Medicare in 1987 and 1986.

Employees hired since January 1, 1984, were covered by the provisions of the Dual Civil Service Retirement/Social Security System until January 1, 1987. During fiscal years 1987 and 1986, these employees and the Postal Service each contributed 1.3 percent and seven percent, respectively, of basic annual salary to the Fund and 7.15 percent of gross wages for Social Security.

From January 1, 1987, employees hired since January 1, 1984 are subject to the provisions of the Federal Employees Retirement System (FERS) Act of 1986. Employees hired prior to January 1, 1984 will be able to elect participation in FERS between July 1, 1987 and December 31, 1987. FERS is a three-tier retirement system consisting of Social Security, a basic annuity plan and a thrift savings plan.

During fiscal year 1987, FERS initially required contributions from the Postal Service and participating employees amounting to 7.15 percent of gross wages for Social Security and an estimated 14.7 and 1.3 percent, respectively, of basic annual salary for the basic annuity plan. The 14.7 percent amount was subsequently revised to 13.5 percent due to changes in Office of Personnel Management's (OPM) actuarial assumptions. The Postal Service is also required to contribute a minimum of one percent per annum of the basic annual salary

of participating employees to the thrift savings plan. Contributions by employees to the thrift savings plan are voluntary and are fully matched by the Postal Service up to three percent of basic annual salary and at a 50 percent rate between three and five percent of basic annual salary.

Unfunded Liability—Under the Civil Service Retirement Program, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the Fund attributable to Postal Service employee-management agreements that authorize increases in basic annual salary on which benefits payable from the Fund are computed. The estimated increase in the unfunded liability as determined by OPM is paid by the Postal Service in 30 equal annual installments with interest computed at the rate used in the most recent valuation of the Civil Service Retirement System (currently five percent), with the first payment thereof due at the end of the fiscal year in which an increase in the basic annual salary becomes effective.

Contributions to the basic annuity plan of FERS are to be determined by OPM with the objective that benefits under FERS be fully funded. Unfunded liabilities of the basic annuity plan, if any, related to Postal Service employees as determined by OPM will be

funded by the Postal Service through supplemental contributions over 30 years with interest.

Under the July 1981 and 1984 employee-management agreements, cost-of-living-allowances (COLAs) accumulated under prior agreements will not become part of basic annual salary until October 1984 and 1987, respectively. COLAs paid in fiscal years 1985-1987 under the provisions of the 1984 employee-management agreements will be included in basic annual salary as a result of the recently completed 1987 contract negotiations. The increase in the expense that resulted from increases in the basic annual salary was estimated at \$49,000,000 for fiscal year 1987 and was \$58,604,000 for fiscal year 1986.

Aggregate retirement costs for fiscal years 1987 and 1986 were \$2,795,000,000 and \$2,360,000,000, respectively, including \$1,366,525,000 and \$1,354,706,000, respectively, attributable to amortization of deferred retirement costs and interest on the unfunded liability, and \$50,131,000 in fiscal year 1987 for Postal Service contributions to the Thrift Savings Plan.

The estimated future minimum payments required to fund amounts payable for retirement benefits on September 30, 1987, are as follows:

Fiscal Year	Amount
1988	\$ 1,402,825,000
1989	1,402,825,000
1990	1,402,825,000
1991	1,402,825,000
1992	1,402,825,000
Thereafter	24,313,422,000
	31,327,547,000
Less amount representing interest and the portion classified as a current liability	13,392,813,000
	<u>\$17,934,734,000</u>

Note 4
Long-Term Debt
and Interest Costs

The Postal Reorganization Act authorizes the Postal Service to issue and sell obligations not to exceed \$10,000,000,000 outstanding at any one time. The net increase outstanding in any one year shall not exceed \$1,500,000,000 for capital improvements and \$500,000,000 for operating expenses. Such obligations shall not be obligations of the U.S. Government unless the Secretary of the Treasury, upon request of the Postal Service, determines that it would be in the public interest to pledge the full faith and credit of the Government of the United States.

The 6 $\frac{7}{8}$ % Postal Service Bonds, Series A, were issued under a Trust Indenture dated February 1, 1972, and are secured by a first lien on the revenue, income, fees, rents, appropriations, and other receipts of the Postal Service; the proceeds of all obligations issued by the Postal Service; and all sinking and improvement funds established pursuant to the Trust Indenture. On July 31 of each year, the Postal Service is required to deposit in a sinking and improvement fund the sum of \$10,000,000 either in cash or reacquired Series A Bonds. However, the Trust Indenture further provides that, at the option of the Postal Service, such sinking fund requirements may be applied to the payment of costs of capital additions or

improvements to properties of the Postal Service. Since the commencement of the sinking fund in 1978, the Postal Service has applied \$87,800,000 to the construction of mail facilities. The balance in the sinking fund (\$12,200,000 in 1987 and \$10,000,000 in 1986) is classified with other assets in the accompanying balance sheets. The bonds are redeemable prior to maturity, at the option of the Postal Service, at the principal amount plus accrued interest.

	Sept. 30, 1987	Sept. 30, 1986
6 $\frac{7}{8}$ % Postal Service Bonds, Series A, due February 1, 1997	\$ 250,000,000	\$ 250,000,000
Notes payable to Federal Financing Bank:		
8.075% payable \$32,000,000 each year to May 31, 2000	416,000,000	480,000,000
7.80% payable \$15,000,000 each year to May 31, 2001	210,000,000	225,000,000
10.475% payable \$38,800,000 each year to May 31, 2010	892,400,000	931,200,000
7.591% payable \$50,000,000 each year to May 31, 2011	1,200,000,000	1,250,000,000
8.474% payable \$30,000,000 each year to May 31, 2012	750,000,000	—
8.908% payable \$35,400,000 each year to May 31, 2012	885,000,000	—
Mortgage notes payable including interest of 4% to 15% maturing from fiscal years 1988 through 2012 secured by land, buildings and equipment with a carrying amount of \$125,000,000 (aggregate annual installments approximate \$6,000,000 with an additional \$86,000,000 due in fiscal year 1988)	124,423,000	130,249,000
	4,727,823,000	3,234,449,000
Less current portion	293,200,000	141,800,000
	<u>\$4,434,623,000</u>	<u>\$3,092,649,000</u>

**REPORT OF THE
INDEPENDENT ACCOUNTANTS**

**Note 5
Commitments**

At September 30, 1987, the estimated cost to complete approved Postal Service capital proj-

ects was approximately \$2,845,000,000.

Total rental expense for the years ended September 30, 1987 and 1986 is summarized as follows:

	1987	1986
Noncancellable real estate leases, including related taxes (1987—\$37,800,000; 1986—\$37,200,000)	\$405,000,000	\$370,800,000
Facilities leased from the General Services Administration subject to 30-day notice of cancellation	37,200,000	35,500,000
Equipment and other short-term rentals	<u>66,800,000</u>	<u>72,400,000</u>
	<u>\$509,000,000</u>	<u>\$478,700,000</u>

At September 30, 1987, the future minimum rentals for all noncancellable leases approximate the following:

Year	Total
1988	\$ 334,000,000
1989	300,000,000
1990	253,000,000
1991	200,000,000
1992	146,000,000
Thereafter	<u>514,000,000</u>
	<u>\$1,747,000,000</u>

Most of these leases contain renewal options for periods ranging from three to twenty years. Certain noncancellable real estate leases have options to purchase the facilities at prices specified in the leases.

**Note 6
Contingencies**

Several equal employment opportunity, employee compensation and postal rate class action lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages, and suits and claims arising out of postal contracts.

In the opinion of management and General Counsel, adequate provision has been made for amounts which may become due under the suits, claims, and proceedings discussed in the preceding paragraph.

**Board of Governors
United States Postal Service**

We have examined the accompanying balance sheets of the United States Postal Service at September 30, 1987 and 1986, and the related statements of operations and changes in equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of the United States Postal Service at September 30, 1987 and 1986, and the results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Arthur Young & Company
Washington, D.C.
November 17, 1987

FINANCIAL HISTORY SUMMARY

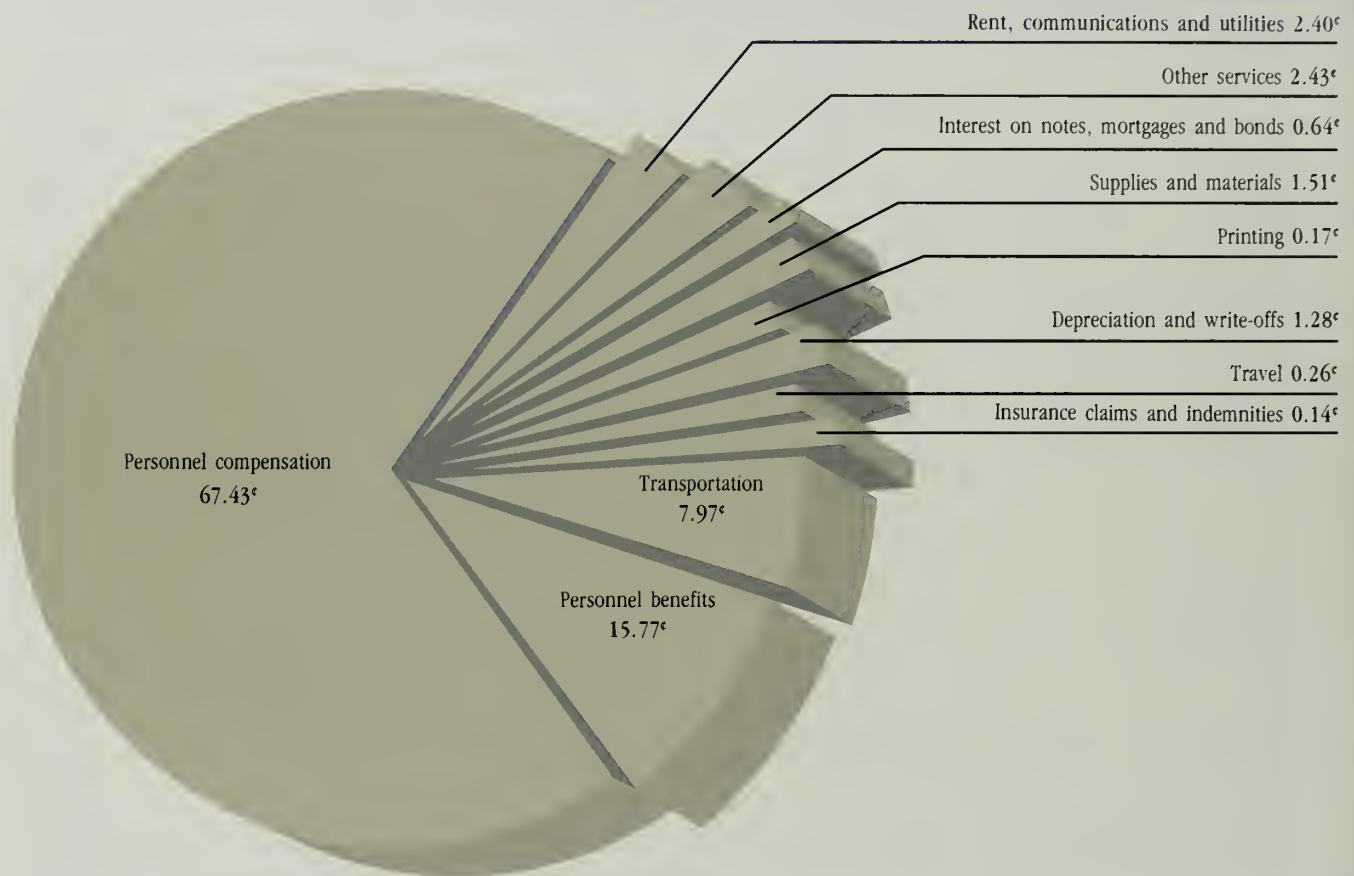
	1987	1986	1985	1984	1983
Statement of Operations					
	(dollars in thousands)				
Operating revenue	\$31,528,112	\$30,102,091	\$27,736,071	\$25,313,554	\$23,581,667
Public service appropriation	0	0	0	0	0
Revenue forgone appropriation	<u>650,000</u>	<u>715,836</u>	<u>969,620</u>	<u>879,000</u>	<u>789,000</u>
Total revenue	<u>32,178,112</u>	<u>30,817,927</u>	<u>28,705,691</u>	<u>26,192,554</u>	<u>24,370,667</u>
Salaries and benefits	27,228,844	25,575,894	24,349,087	22,157,261	20,070,241
Other expenses	<u>5,290,845</u>	<u>5,140,701</u>	<u>4,858,114</u>	<u>4,200,092</u>	<u>4,012,832</u>
Total operating expenses	<u>32,519,689</u>	<u>30,716,595</u>	<u>29,207,201</u>	<u>26,357,353</u>	<u>24,083,073</u>
Operating income (loss)	(341,577)	101,332	(501,510)	(164,799)	287,594
Other income, net	<u>118,891</u>	<u>203,276</u>	<u>250,030</u>	<u>282,151</u>	<u>328,732</u>
Net income (loss)	<u>(\$ 222,686)</u>	<u>\$ 304,608</u>	<u>(\$ 251,480)</u>	<u>\$ 117,352</u>	<u>\$ 616,326</u>
Balance Sheet					
Assets					
Current assets	\$ 5,340,524	\$ 4,658,520	\$ 3,234,741	\$ 3,332,636	\$ 3,233,035
Property, plant and equipment, deferred retirement costs and other assets	<u>26,746,689</u>	<u>25,155,662</u>	<u>23,825,476</u>	<u>18,227,022</u>	<u>17,630,817</u>
Total assets	<u>\$32,087,213</u>	<u>\$29,814,182</u>	<u>\$27,060,217</u>	<u>\$21,559,658</u>	<u>\$20,863,852</u>
Liabilities					
Current liabilities	\$ 5,603,132	\$ 4,846,471	\$ 4,311,893	\$ 4,375,896	\$ 3,753,123
Other liabilities	21,911,231	21,513,194	20,706,697	15,780,759	15,608,104
Long-term debt—bonds, notes and mortgages	<u>4,434,623</u>	<u>3,092,649</u>	<u>1,983,263</u>	<u>1,092,264</u>	<u>1,390,855</u>
Equity	<u>138,227</u>	<u>361,868</u>	<u>58,364</u>	<u>310,739</u>	<u>111,770</u>
Total liabilities and equity	<u>\$32,087,213</u>	<u>\$29,814,182</u>	<u>\$27,060,217</u>	<u>\$21,559,658</u>	<u>\$20,863,852</u>
Analysis of Changes in Equity (Deficiency)					
Beginning balance	\$ 361,868	\$ 58,364	\$ 310,739	\$ 111,770	(\$ 505,146)
Net income (loss)	(222,686)	304,608	(251,480)	117,352	616,326
Capital contributions	(955)	(1,104)	(895)	81,617	590
Ending balance	<u>\$ 138,227</u>	<u>\$ 361,868</u>	<u>\$ 58,364</u>	<u>\$ 310,739</u>	<u>\$ 111,770</u>

IMPACT OF REVENUE FORGONE APPROPRIATION* ON REVENUES
FISCAL YEAR 1987

Class of Service	Total Income of Service	Income from Revenues	Income from Appropriation	Appropriation as a Percentage of Income
			(dollars in millions)	
First-Class Mail	\$18,786.0	\$18,786.0	none	none
Priority Mail	1,085.6	1,085.6	none	none
Express Mail	498.7	498.7	none	none
Mailgram	13.4	13.4	none	none
Second-Class Mail				
Within-the-county	\$ 137.4	\$ 93.7	\$ 43.7	31.8%
Outside-the-county				
Nonprofit publications	235.3	193.1	42.2	17.9%
Classroom publications	7.5	6.2	1.3	17.3%
Regular-rate publications	975.9	975.2	0.7	0.1%
Fees	<u>11.6</u>	<u>11.6</u>	<u>none</u>	<u>none</u>
Total Second-Class Mail	\$ 1,367.7	\$ 1,279.8	\$ 87.9	6.4%
Third-Class Mail				
Single-piece rate	\$ 152.9	\$ 152.9	none	none
Regular bulk rate	5,111.7	5,111.7	none	none
Nonprofit bulk rate	1,292.8	835.6	\$ 457.2	35.4%
Fees	<u>47.4</u>	<u>47.4</u>	<u>none</u>	<u>none</u>
Total Third-Class Mail	\$ 6,604.8	\$ 6,147.6	\$ 457.2	6.9%
Fourth-Class Mail				
Parcels (zone rate)	\$ 414.6	\$ 414.6	none	none
Bound printed matter	148.7	148.7	none	none
Special-rate matter	203.0	203.0	none	none
Library materials	71.8	54.4	\$ 17.4	24.2%
Fees	<u>2.2</u>	<u>2.2</u>	<u>none</u>	<u>none</u>
Total Fourth-Class Mail	\$ 840.3	\$ 822.9	\$ 17.4	2.1%
U.S. Government (franked and penalty) mail	\$ 907.3	\$ 907.3	none	none
Free mail for the blind and handicapped	28.5	—	\$ 28.5	100.0%
International mail	<u>957.2</u>	<u>957.2</u>	<u>none</u>	<u>none</u>
Totals	\$31,089.5	\$30,498.5	\$ 591.0	1.9%
Adjustment for prior years			<u>59.0</u>	
Total			\$ 650.0	

*Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss, which is the difference between the reduced rate and the otherwise applicable rate, is given to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

ANALYSIS OF EXPENSES
FISCAL YEAR 1987

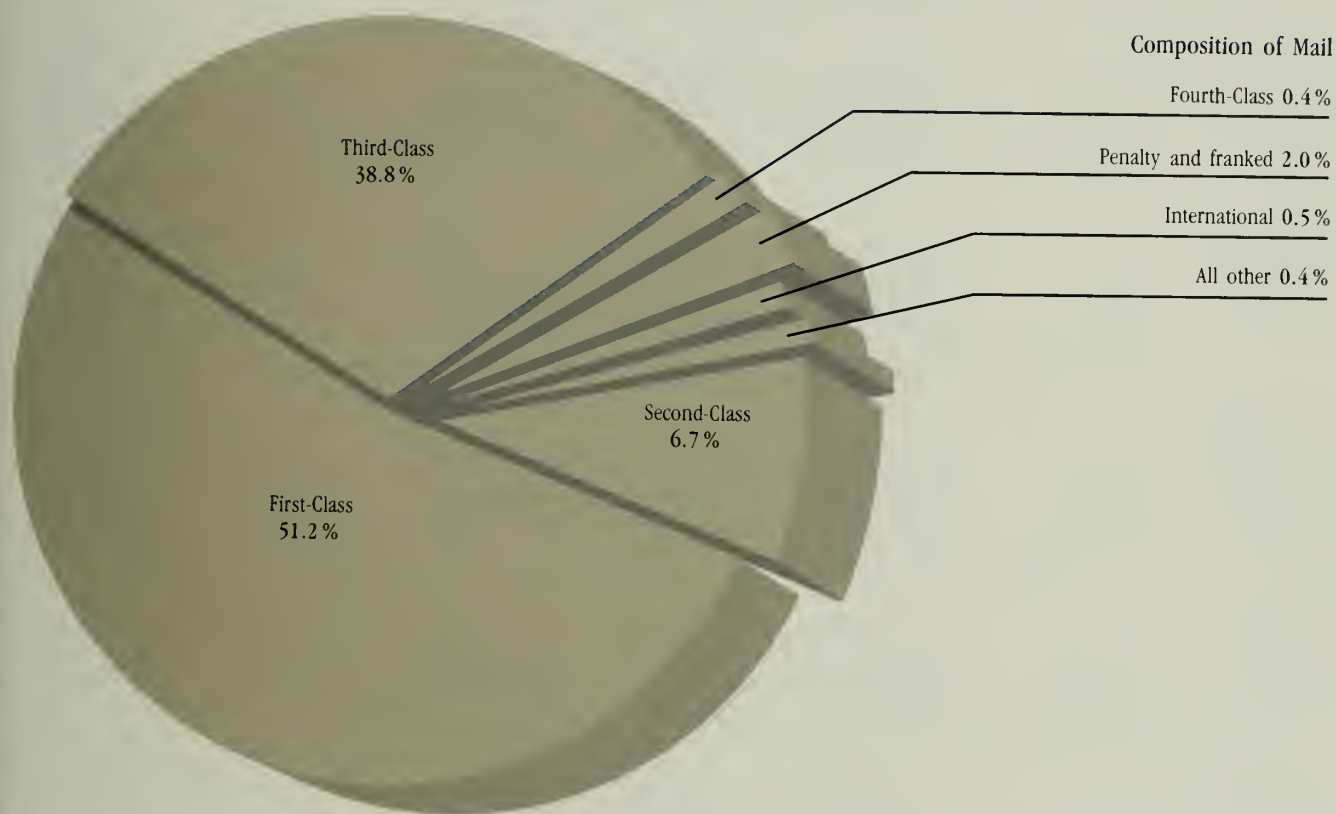


Source of Income

Millions of Dollars

Mail revenue:		
Postage	\$29,591.2	
Federal government payments	907.3	\$30,498.5
Special services		1,029.6
Government appropriations:		
Revenue forgone appropriation for free and reduced rate mail		650.0
Interest income, net		118.9
Total income		32,297.0
Total operating expenses		32,519.7
Net income (loss)		(\$ 222.7)

ANALYSIS OF MAIL VOLUME
FISCAL YEAR 1987



Pieces of Mail (in billions)	1987	1986	Percent Change
First-Class	78.87	76.19	3.5
Second-Class	10.32	10.59	- 2.5
Third-Class	59.73	55.05	8.5
Fourth-Class	0.62	0.60	2.2
Penalty and franked	3.15	3.72	- 15.3
International	0.78	0.80	- 2.5
All other	<u>0.46</u>	<u>0.43</u>	<u>6.5</u>
Total mail	153.93	147.38	4.4

OPERATING STATISTICS

Classes of Mail	1987	1986	1985	1984	1983
First-Class	(in thousands of units indicated)				
Pieces, number	78,869,309	76,186,648	72,440,277	68,428,570	64,246,880
Weight, pounds	2,970,439	2,811,578	2,662,593	2,511,893	2,341,830
Revenue	\$18,786,027	\$18,034,926	\$16,739,909	\$15,215,938	\$14,255,397
Priority Mail					
Pieces, number	354,331	329,896	307,815	293,442	271,355
Weight, pounds	763,085	704,027	672,446	656,085	587,607
Revenue	\$ 1,085,636	\$ 1,010,709	\$ 959,989	\$ 928,436	\$ 848,805
Express Mail*					
Pieces, number	41,531	40,095	43,939	42,819	35,920
Weight, pounds	76,832	125,325	140,002	141,518	105,276
Revenue	\$ 498,733	\$ 490,782	\$ 502,482	\$ 457,656	\$ 394,209
Mailgram					
Pieces, number	21,900	25,540	31,266	34,329	36,588
Revenue	\$ 13,361	\$ 17,469	\$ 14,906	\$ 12,811	\$ 13,799
Second-Class					
Pieces, number	10,324,309	10,587,904	10,379,515	9,522,476	9,219,753
Weight, pounds	4,012,421	3,971,641	3,965,545	3,852,029	3,526,097
Revenue	\$ 1,279,847	\$ 1,222,327	\$ 1,092,927	\$ 1,025,020	\$ 958,369
Third-Class					
Pieces, number	59,733,198	55,048,946	52,170,257	48,248,714	40,734,719
Weight, pounds	7,155,038	6,543,988	6,452,647	5,786,583	5,062,073
Revenue	\$ 6,147,551	\$ 5,606,268	\$ 4,886,566	\$ 4,240,832	\$ 3,676,775

**Express Mail statistics have been restated to represent Domestic Express Mail only. Statistics for International Air have been revised to reflect this change.*

Classes of Mail	1987	1986	1985	1984	1983
(in thousands of units indicated)					
Fourth-Class					
Pieces, number	615,230	602,006	575,680	599,037	567,529
Weight, pounds	2,178,673	2,254,271	2,156,461	2,289,263	2,248,224
Revenue	\$ 822,917	\$ 814,291	\$ 763,003	\$ 773,988	\$ 753,168
International Surface					
Pieces, number	266,966	315,734	327,449	352,481	385,137
Weight, pounds	148,138	153,750	153,644	165,590	166,609
Revenue	\$ 205,896	\$ 220,877	\$ 212,753	\$ 212,862	\$ 222,872
International Air**					
Pieces, number	510,850	481,993	503,266	543,447	520,562
Weight, pounds	67,774	64,408	69,491	70,151	67,564
Revenue***	\$ 751,256	\$ 713,249	\$ 710,834	\$ 677,919	\$ 678,796
Penalty					
Pieces, number	2,644,744	2,969,799	2,608,045	2,523,178	2,775,321
Weight, pounds	452,841	468,930	469,530	499,673	487,156
Revenue	\$ 844,158	\$ 896,376	\$ 848,896	\$ 788,894	\$ 841,012
Franked					
Pieces, number	507,019	751,769	682,914	923,955	549,247
Weight, pounds	13,875	17,441	14,847	19,744	14,178
Revenue	\$ 63,164	\$ 96,103	\$ 85,529	\$ 111,646	\$ 72,197
Free for the Blind					
Pieces, number	41,187	35,475	27,533	32,172	38,398
Weight, pounds	41,999	36,793	25,375	29,595	37,797
Totals					
Pieces, number	153,930,574	147,375,805	140,097,956	131,544,620	119,381,409
Weight, pounds	17,881,115	17,152,152	16,782,581	16,022,124	14,644,411
Revenue	\$30,498,546	\$29,123,377	\$26,817,794	\$24,446,002	\$22,715,399

**Figures have been revised to include International Express Mail formerly included with Domestic Express Mail.

***Includes transit special handling and miscellaneous revenue.

Special Services	1987	1986	1985	1984	1983
Registry	(in thousands of units indicated)				
Number of articles (paid and free)	52,427	52,348	51,123	54,735	53,950
Revenue	\$ 159,514	\$ 167,363	\$ 164,038	\$ 162,979	\$ 164,882
Certified					
Number of pieces	160,602	147,374	130,698	124,112	111,255
Revenue	\$ 222,973	\$ 202,927	\$ 174,702	\$ 155,998	\$ 140,538
Insurance					
Number of articles	40,006	39,783	43,372	46,960	48,749
Revenue	\$ 51,733	\$ 50,344	\$ 51,043	\$ 54,229	\$ 55,505
Collection-on-Delivery					
Number of articles	10,405	10,383	11,022	11,960	11,819
Revenue	\$ 19,569	\$ 19,528	\$ 21,304	\$ 23,030	\$ 21,906
Special Delivery					
Number of articles	8,440	10,232	15,373	19,044	22,055
Revenue	\$ 25,144	\$ 30,448	\$ 40,496	\$ 40,681	\$ 47,416
Money Orders					
Number issued	141,977	133,799	117,792	115,550	115,073
Revenue fees	\$ 147,525	\$ 134,647	\$ 125,935	\$ 131,575	\$ 124,200
Other					
Box rent revenue	\$ 273,262	\$ 258,582	\$ 229,891	\$ 188,055	\$ 202,050
Stamped envelope revenue	18,434	14,743	16,831	13,883	16,826
Other revenue, net	111,412	100,132	94,037	97,122	92,945
Totals					
Special services revenue	\$ 1,029,566	\$ 978,714	\$ 918,277	\$ 867,552	\$ 866,268
Mail revenue	30,498,546	29,123,377	26,817,794	24,446,002	22,715,399
Operating revenue	<u>\$31,528,112</u>	<u>\$30,102,091</u>	<u>\$27,736,071</u>	<u>\$25,313,554</u>	<u>\$23,581,667</u>

Employees	1987*	1986*	1985*	1984*	1983*
Headquarters employees	3,428	3,037	3,077	3,012	2,993
Field regular employees					
Regional and other field units	4,808	4,988	6,536	6,524	6,441
Inspection Service (field)	4,251	4,237	4,370	4,510	4,655
Postmasters	27,735	27,352	27,811	28,140	28,266
Post office supervisors and technical personnel	53,644	49,424	46,279	44,515	41,659
Post office clerks, mail handlers and nurses	271,859	259,773	248,939	235,172	229,141
City delivery carriers and vehicle drivers	195,518	186,727	179,198	171,434	166,317
Rural delivery carriers	36,551	35,938	35,206	34,679	34,438
Special delivery messengers	1,781	1,824	1,832	1,790	1,815
Building and equipment maintenance personnel	29,299	28,383	28,477	27,524	27,193
Vehicle maintenance facility personnel	<u>4,513</u>	<u>4,346</u>	<u>4,218</u>	<u>4,119</u>	<u>4,023</u>
Total full-time employees	633,387	606,029	585,943	561,419	546,941
Other employees	128,128	147,870	130,055	116,585	109,459
Rural carrier substitutes	2,013	3,184	4,716	6,687	9,324
Rural carrier reliefs/associates	<u>27,029</u>	<u>27,474</u>	<u>23,776</u>	<u>17,432</u>	<u>13,121</u>
Grand total	<u>790,557</u>	<u>784,557</u>	<u>744,490</u>	<u>702,123</u>	<u>678,845</u>
Offices, Stations and Branches	1987	1986	1985	1984	1983
Number of post offices	29,319	29,344	29,557	29,750	29,990
Number of stations and branches:					
Classified stations and branches:	4,910	4,240	4,224	4,184	4,160
Contract stations and branches:	4,087	3,965	3,856	3,744	3,626
Community post offices	<u>1,714</u>	<u>1,721</u>	<u>1,690</u>	<u>1,708</u>	<u>1,669</u>
Total	<u>10,711</u>	<u>9,926</u>	<u>9,770</u>	<u>9,636</u>	<u>9,455</u>
Grand total	<u>40,030</u>	<u>39,270</u>	<u>39,327</u>	<u>39,386</u>	<u>39,445</u>

*Figures have been revised to conform with current method of counting employees using the on-rolls and paid employee statistics database.



Left to right: Michael S. Coughlin, Deputy Postmaster General; Preston R. Tisch, Postmaster General; the late Fletcher F. Acord, Associate Postmaster General.

SENIOR USPS OFFICIALS

Preston R. Tisch
Postmaster General

Michael S. Coughlin
Deputy Postmaster General

Fletcher F. Acord
Associate Postmaster General

Louis A. Cox
General Counsel

Charles R. Clauson
Chief Postal Inspector

David H. Charters
Senior Assistant Postmaster General
Human Resources Group

Comer S. Coppie
Senior Assistant Postmaster General
Finance and Planning Group

John G. Mulligan
Senior Assistant Postmaster General
Operations Support Group

Mitchell H. Gordon
Senior Assistant Postmaster General
Marketing and Communications Group

Edward E. Horgan, Jr.
Senior Assistant Postmaster General
Facilities and Supply Group

Kenneth J. Hunter
Senior Assistant Postmaster General
Management Information and Research Technology
Group

Joseph R. Caraveo
Regional Postmaster General
Western Region

Jerry K. Lee, Sr.
Regional Postmaster General
Central Region

William R. Cummings
Regional Postmaster General
Northeast Region

Johnny F. Thomas
Regional Postmaster General
Eastern Region

William A. Campbell, Jr.
Regional Postmaster General
Southern Region



Left to right: Senior Assistant Postmasters General Kenneth J. Hunter; Mitchell H. Gordon; Louis A. Cox, General Counsel; Senior Assistant Postmasters General David H. Charters; Comer S. Coppie; John G. Mulligan; Edward E. Horgan, Jr.



*William R. Cummings
Regional Postmaster General
Northeast Region*



*Jobany F. Thomas
Regional Postmaster General
Eastern Region*



*William A. Campbell, Jr.
Regional Postmaster General
Southern Region*



*Jerry K. Lee, Sr.
Regional Postmaster General
Central Region*



*Joseph R. Caraveo
Regional Postmaster General
Western Region*



Left to right, seated: Ruth O. Peters; Norma Pace; J. H. Tyler McConnell; Chairman of the Board John N. Griesemer and Vice-Chairman of the Board John L. Ryan. Standing: Robert Setrakian; Crocker Nevin; and Ira D. Hall. Governor Hall's appointment became effective December 7, 1987.

BOARD OF GOVERNORS

John N. Griesemer, *Chairman of the Board*, is President of the Griesemer Stone Company in Springfield, Missouri. He became a Governor in December 1984 for a term which expired December 1986. He was reappointed, without a break in service, to a full term, expiring December 8, 1995. He was elected Chairman of the Board in January 1987.

John L. Ryan, *Vice Chairman of the Board*, became a postal Governor in May 1983 for a term expiring December 8, 1989. He retired as Vice President of MET-PRO Corporation and General Manager of the Dean Pump Division in Indianapolis, Indiana, in January 1987. He was elected Vice Chairman of the Board in June 1986.

J. H. Tyler McConnell, a lawyer, banker, and business executive and 1956 Democratic nominee for Governor of Delaware, served on the Executive Committee of the President's Private Sector Survey on Cost Control in the Federal Government (The Grace Commission). He was appointed a Governor in December 1985 for a term that expires December 8, 1988.

Crocker Nevin, Chairman of the Audit Committee of the Board, became a Governor in August 1986 and will serve the remainder of a term expiring December 8, 1992. Governor Nevin has an extensive background in banking, finance and community services. He previously served on the Board of Governors from 1971 to 1977.

Robert Setrakian, a San Francisco businessman, was appointed to the Board in December 1985, for a term expiring December 8, 1993. He previously served as a Presidentially-appointed Commissioner of the Federal Maritime Commission from 1983 to 1985.

Norma Pace, an economist and consultant to several top corporations in the nation, was appointed to serve on the Board in May 1987, for a term expiring December 8, 1994. Mrs. Pace is the author of numerous articles for business publications on forecasting and the use of forecasting in business planning.

Ruth O. Peters, of Arlington, Virginia, a retired postal executive, was appointed to the Board in December 1983 for a term scheduled to expire December 8, 1987. As provided by law, she may continue to serve after the expiration of her term up to December 1988, pending the appointment of a successor.

Preston R. Tisch, named Postmaster General by the Board on August 16, 1986, joined the Postal Service from Loews Corporation, one of the country's largest diversified financial corporations, where he had been president and chief operating officer.

Michael S. Coughlin was named Deputy Postmaster General by the Board on January 5, 1987 after holding a series of top-level management positions with the Postal Service. He entered the Postal Service in 1967 as a management intern.

Also serving on the Board during FY 1987 was John R. McKean, who resigned in May 1987. George W. Camp whose term expired December 8, 1985, continued to serve as provided by law, until December 8, 1986. Deputy Postmaster General Jackie Strange retired on January 2, 1987.

At the close of Fiscal Year 1987 there were two vacancies for terms expiring in 1991 and 1996.

U.S. Postal Service
475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-0010



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United States
Postal Service
Fiscal Year 1988

OFFICE OF THE
POSTMASTER GENERAL

Our Agenda

- I. Expand interval between
rate adjustments
- II. Provide best possible
service to the American
people
- III. Establish better
relationship between
labor and management

- A.M.F.

January 1989

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Financial and Operating Highlights

	Year Ended Sept. 30, 1988	Year Ended Sept. 30, 1987	Year Ended Sept. 30, 1986	Year Ended Sept. 30, 1985	Year Ended Sept. 30, 1984
Pieces of mail (millions)	160,491	153,931	147,376	140,098	131,545
Percent change	4.3	4.4	5.2	6.5	10.2

(dollars in millions)

Operating revenue	\$35,036	\$31,528	\$30,102	\$27,736	\$25,314
Percent change	11.1	4.7	8.5	9.6	7.3
Public service appropriation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue forgone appropriation *	\$ 517	\$ 650	\$ 716	\$ 970	\$ 879
Percent change	- 20.5	- 9.2	- 26.2	10.3	11.4
Total operating expenses	\$36,119	\$32,520	\$30,717	\$29,207	\$26,357
Percent change	11.1	5.9	5.2	10.8	9.4
Net income (loss)	(\$ 597)	(\$ 223)	\$ 305	(\$ 251)	\$ 117
Fixed assets (net of depreciation)	\$ 7,801	\$ 6,628	\$ 5,588	\$ 5,065	\$ 4,813
Percent change	17.7	18.6	10.3	5.2	7.9
Equity (deficiency)	(\$ 460)	\$ 138	\$ 362	\$ 58	\$ 311

(in units indicated)

U.S. resident population January 1 (estimate in millions)	244.6	242.2	239.9	237.8	234.9
Percent change	1.0	0.9	0.9	1.2	0.7
Pieces of mail per capita	656	635	614	589	560
Percent change	3.3	3.5	4.2	5.2	9.4
Operating revenue per capita	\$ 143.24	\$ 130.16	\$ 125.46	\$ 116.64	\$ 107.77
Percent change	10.0	3.7	7.6	8.2	6.6
Operating expense per piece of mail	22.51¢	21.13¢	20.84¢	20.85¢	20.04¢
Percent change	6.5	1.4	—	4.0	- 0.6
Operating revenue per piece of mail	21.83¢	20.48¢	20.43¢	19.80¢	19.24¢
Percent change	6.6	0.2	3.2	2.9	- 2.6
Net income (loss) per piece of mail	(0.37¢)	(0.14¢)	0.21¢	(0.18¢)	0.09¢
Percent change	—	—	—	—	- 82.7
Career employees **	763,781	750,808	731,765	704,807	672,849
Percent change	1.7	2.6	3.8	4.7	3.9

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* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss is given to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

** Figures on career employees have been revised to conform with the current method of counting career paid employees from the On-Rolls and Paid Employee Statistics data base.

To the Board of Governors:

During Fiscal Year 1988, the Postal Service processed and delivered 160 billion pieces of mail, surpassing the previous year's volume of 154 billion pieces and establishing a record volume for the 12th consecutive year. Total revenue for the year nearly reached \$36 billion, an 11 percent increase over the previous year. Despite this increase in revenue, we ended the year with a net loss of about \$597 million.

This does not, however, fully tell the story of Fiscal Year 1988, my first as Postmaster General of the United States. Last year was

one of uncommon challenge, uncommon opportunity and uncommon response by the men and women of the United States Postal Service.

As I assumed office in March, succeeding Preston R. Tisch, much already had happened to distinguish this as an unusual year. The Postal Service was developing plans to meet the unexpected mandates of the Omnibus Budget Reconciliation Act of 1987, which required that we make payments totaling \$510 million to the U.S. Treasury as a contribution toward the national effort to reduce the federal deficit.

The effects of the Act were immediate and will be long-lasting.

The Postal Service was forced to cancel or postpone 75 percent of the urgently needed capital investment commitments we had planned for Fiscal Year 1988 and to reduce operating expense by \$160 million.

These unexpected provisions of the Act were imposed on the Postal Service well after the year had begun and our operating budgets had already been carefully pared. To meet the mandated reductions, we were required to make additional adjustments, among them an average nine percent reduction in the hours our retail facilities were open to the public. This all happened just as the Postal Service was preparing

to raise rates for the first time in more than three years.

That was not a welcome scenario, and, unfortunately, it came at a time that a host of organizations and adversaries were stepping up their efforts to privatize the U.S. Postal Service.

The potential clearly existed for a wave of public indignation that could have undone years of steady progress toward improving the quality of services we provide to our customers who depend on this great public enterprise for consistent, reliable, affordable and universal mail services to meet a range of communication and distribution needs.

As the words and images of this annual report demonstrate, the Postal Service not only kept faith with our customers, but also established a clear agenda for continuing the historic partnership we have long held with the American people. The agenda is to:

- Expand the interval between rate adjustments;
- Provide the best possible service to the American people;
- Improve management's working relationship with our employees.

This agenda is essential, realistic and workable. It will require changing some deeply held attitudes within the Postal Service, and it will not be achieved overnight. It focuses on the inescapable



Thirty-four percent of all letter mail was handled via automated equipment in Fiscal Year 1988, up eight percent from the previous year.

benefits of modern technology and the energies of dedicated and motivated people on meeting the needs of our customers.

Progress toward this agenda has already begun. Throughout the year we worked closely with our customers, employees and labor and management organizations to increase cooperation and to expand the convenience of our products and services. Among our major accomplishments in these areas were the development of an integrated plan for automation, the commitment to a goal of bar-coding virtually all mail by 1995, the establishment of a joint industry-postal task force which generated recommendations for expanded worksharing opportunities and the signing of an agreement with the National Association of Letter Carriers to reduce grievances by half. These efforts are highlighted throughout this report.

As we now move forward to broaden our customers' understanding of our agenda and to make ours a better "businesslike public service," we should benefit in Fiscal Year 1989 from greater stability. We have labor contracts and stable postage rates in place. In May, we completed the fine-tuning of our structure with the

appointment of two Associate Postmasters General, the creation of the Special Projects Department to focus on short-term business opportunities, the creation of the Consumer Affairs Department to recognize the importance of the general public to our national franchise, and by realigning the reporting relationship of the Planning Department to meet the need for continuity in long-range planning. The appointment of a Senior Assistant Postmaster General for Marketing and Communications at year's end completed our search for an executive team that is highly qualified and brings to the Postal Service a blend of private and public sector experience.

To close with some personal reflections, I wish to express my sincere appreciation for the efforts that numerous individuals made to my postal education. The support of Deputy Postmaster General Michael S. Coughlin, other senior management of the Postal Service, Board Chairman John N. Griesemer and the Governors helped broaden my understanding of the complexities of managing this significant business of the American people. I learned much about the interdependency of the

Postal Service and the mailing industry from the hundreds of mailers and thousands of employees that I met as I traveled throughout the country. And, from the members of Congress and their staffs and the customers who receive the mail, I received a deeper appreciation for the Postal Service's importance to the economic and social health of our nation.

I believe that 1989 will provide many significant opportunities to advance our agenda and point us toward the future as a more secure, effective and customer-oriented Postal Service. That is as it should be. Whether we call ourselves managers, clerks, carriers or customers, we are all people working together in a common cause to preserve, protect and strengthen an uncommon public enterprise.

Anthony M. Frank

Anthony M. Frank
Postmaster General
of the United States

January 1989



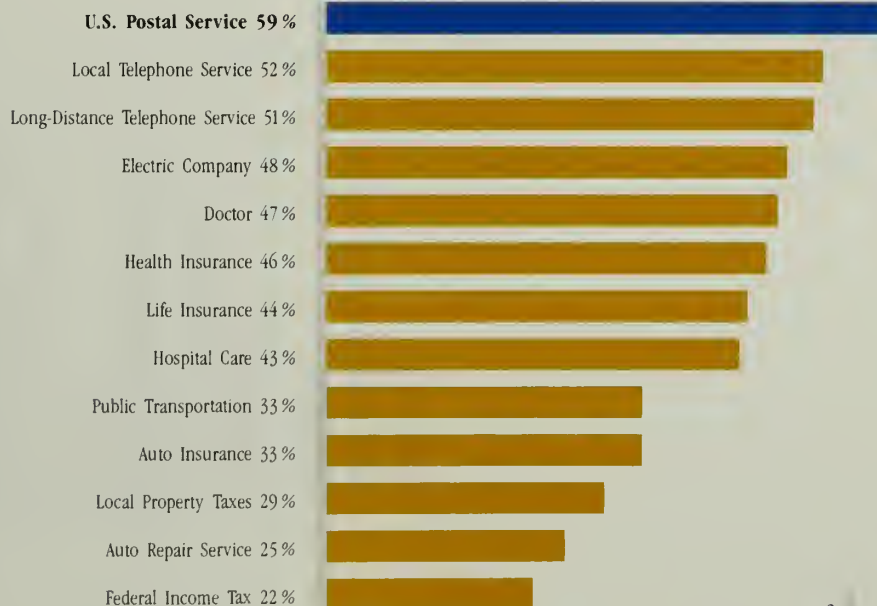
Anthony M. Frank became the 69th Postmaster General of the United States on March 1, 1988.

Value Received for the Dollar—1988

This chart illustrates the May 1988 Roper survey. In it, respondents said that mail service led the list of those services providing excellent or good value for the dollar.

% = Excellent/Good

Source: Roper Report, May 1988



Fiscal Year 1988: An Uncommon Year of Uncommon Enterprise



Associate Postmasters General Edward E. Horgan, Jr. (left) and Kenneth J. Hunter (right) were named to their positions in May. Together with Deputy Postmaster General Michael S. Coughlin (center), they form the Postmaster General's senior executive triad.

Over the 12 months from October 1, 1987 to September 30, 1988, the Postal Service demonstrated that a public service can be effective and businesslike.

In addition to collecting, processing and delivering Fiscal Year 1988's record volume of 160 billion pieces of mail, the Postal Service focused on framing an agenda compatible with securing the future competitiveness and utility of the nation's postal system.

Throughout the fiscal year, progress was made toward expanding the interval between rate adjustments, providing the best possible service to the American people and improving management's working relationships with employees.

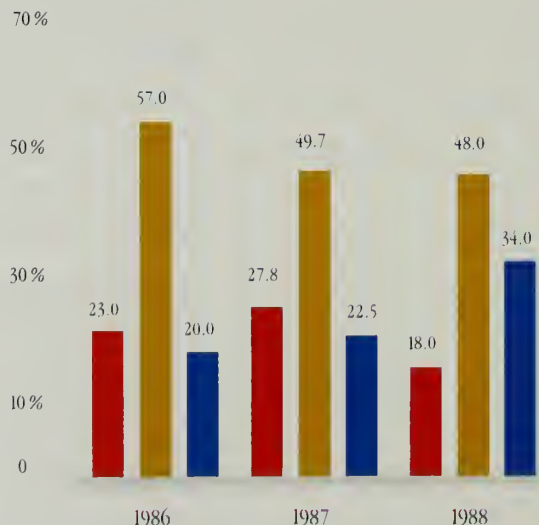
The Postal Service continued to pursue expanded opportunities to keep costs down, to make rate changes less frequent and more moderate and to effectively and efficiently handle mail volume projected to grow at rates of three to four percent annually throughout the 1990s.

To promote service quality, improvements to a variety of products and services were initiated. Groundwork was completed toward establishing new service measurement systems, and — because service quality is linked to employee performance — emphasis was placed on improving both the quality of the working environment and management-labor relations.

These continuing steps fully support the postal agenda and are consistent with the goal of achieving the lowest combined mailer and postal costs for preparing, processing and delivering the mail. This goal is important because the Postal Service will continue to operate in an increasingly competitive communications marketplace well into the 21st Century.

Comparison of Letter Processing Mix

- Mail sorted manually
- Mail sorted on mechanized equipment
- Mail processed on automated equipment



I

Expanding the Interval Between Rate Increases



The Postal Service deployed 200 multiline OCRs and 150 bar code sorters in Fiscal Year 1988. John G. Mulligan, Senior Assistant Postmaster General, Operations Support Group, (right) discusses mail processing efficiencies gained through deployment of multiline optical character readers with Lutherville-Timonium, MD Supervisor John Budzynski.

The Postal Service's commitment to stretch rate intervals recognizes that customers consider holding postal costs in check to be vital to their interests and to their businesses.

To maximize its efforts in this area, the Postal Service undertook a number of efficiency and cost-related initiatives during the fiscal year.

Barcoding and Automation. In Fiscal Year 1988, 34 percent of all letter mail was processed on automated equipment, an increase of eight percent over the previous year. Also, total ZIP+4 mail coded by mailers increased 24 percent to 15 billion pieces.

To increase this participation, an integrated plan for automating mail processing and distribution operations was developed and focused on a concrete objective — the barcoding of virtually all mail by 1995. The plan recognizes the need to provide appropriate rate incentives to promote customer worksharing. It also calls for continued development and deployment of technologically advanced

equipment to enable the Postal Service to barcode mail when customers do not.

Establishing a goal for barcoding underscored the Postal Service's efforts to shift from labor-intensive manual and mechanized sorting of the mail to more cost-effective automated mail processing. (Currently, sorting costs associated with manual processing of letters are 2.8 cents per piece, compared to 1.5 cents per piece when these operations are mechanized and 0.3 cent per piece when they are automated.)

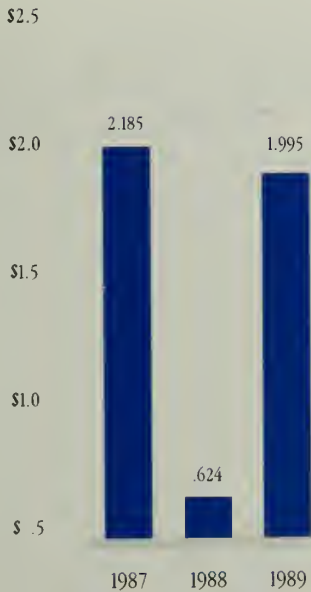
These efforts were supported by the continued development of new mail processing concepts. For example, a modification to existing bar code sorters is under development to allow this equipment to scan a larger portion of the envelope to locate a customer-affixed bar code. This technology will allow more mail to be moved from letter sorting machines to automated equipment.

Video encoding technology also is being developed. This system will generate video images of mail

Capital Investments

(commitments in billions of dollars)

Note: Fiscal Years 1988 and 1989 figures reflect the impact of the ceiling imposed by the Omnibus Budget Reconciliation Act of 1987.





The Postal Service expects to barcode virtually all mail by 1995. Realizing that customer barcoding is not feasible for all customers, the Postal Service is testing a video encoding system which will enable operators of the terminals to add the bar code.

that cannot be "read" by optical character readers. These images of the mail piece will be used to generate a corresponding bar code, which represents the delivery address.

Parcel sorting — currently a mechanized operation — has been targeted for future automated processing. Concepts for an advanced OCR/BCS/video encoding system for flats are under development.

Mailer involvement in automation and bar code planning also continued throughout the fiscal year. The Automation and Bar Code Group, a cross-section of mail industry representatives, met regularly with postal officials to discuss ways of incorporating technology into more postal operations. Several concepts developed by the group — including those aimed at increasing customer use of the current Postnet bar code — are being studied. Among these concepts are an address-block bar code and an advanced bar code to promote finer sorting as a means of reducing the time carriers spend arranging mail in the order it is delivered.

In addition to these efforts, the Postal Service continued its outward look for future mail processing concepts by hosting its third Advanced Technology Conference, attended in May by representatives of the United States and 16 foreign nations.

Capital Investment. The Postal Service dedicated a substantial portion of its limited capital resources to the procurement of flat sorting machines and bar code sorters.

These commitments followed previous years' expenditures for advanced automated processing equipment. During the year, 200 new multiline optical character readers and 150 new bar code sorters were put on line, extending automated processing capability to 213 major postal mail processing facilities. (At year's end, the rate of delivery of new multiline optical character readers was about one per day.)

Construction continued on five major postal facilities scheduled for completion in Fiscal Year 1989. Innovation was stressed in all areas of postal real estate activity. Building schedules were reduced from an average 55 months to 38

Automated mail processing is now five times less expensive than mechanized handling, and more than nine times less expensive than manual sorting. Los Angeles Maintenance Technician Mark Gaston monitors an optical character reader, one of 200 such machines placed in operation in Fiscal Year 1988.



months (a 30 percent reduction); turnkey contracts for site, design and construction were encouraged; and a computer-aided "Kit of Parts," which combines the adaptability of custom design with the consistency and speed of standard plans, was utilized on 26 projects during Fiscal Year 1988.

In a major effort to further modernize its buildings (which now average more than 30 years of age) and to acquire automation and other technology to improve productivity and service, the Postal Service plans to make capital investments totaling approximately \$13 billion in the next five years — including \$7 billion for facilities and \$5 billion for automation and other mail processing, delivery and retail equipment.

To protect this planned investment (authorized by the Board of Governors in October 1988), the Postal Service fully supports efforts in Congress to remove it from the unified federal budget and seeks to obtain an increase in its authorized debt ceiling from \$10 billion to \$30 billion. (The \$10 billion cap now in place was established in 1970 and has not been adjusted

for inflation. If adjustments for inflation were made, that cap would now be over \$30 billion.)

Worksharing. In May, the Postmaster General established a Special Projects Department to focus on short-term business opportunities. The new department's first major effort was to identify new or expanded customer worksharing initiatives. This effort, involving both postal management and members of the mailing industry, produced recommendations for three dozen initiatives with total estimated annual gross savings ranging from \$500 million to \$800 million. A management review of the recommendations is underway. Key initiatives being considered are:

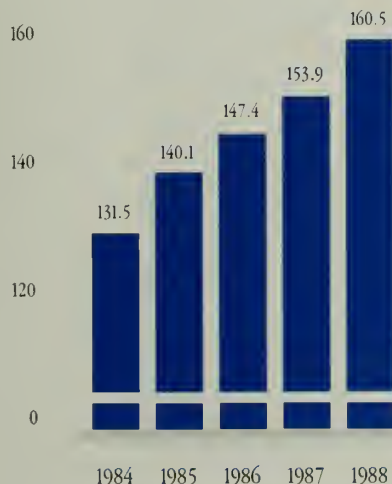
- Automating and mechanizing additional volumes and classes of mail.
- Increasing opportunities for customer presorting.
- Improving packaging, containerization, materials handling and transportation systems.
- Encouraging the entry of mail closer to its delivery point.
- Improving the quality of mailer- and household-applied addresses.

- Encouraging mailer efforts to arrange mail in the order in which a carrier delivers it.
- Considering new services or enhancements to existing services to meet specific customer needs.
- Providing improvements in postage payment systems.

Procurement. A new procurement policy combining some of the most advantageous aspects of public and commercial procurement practices was put in place during the year. The new policy and procedures are designed to improve the timeliness and cost-effectiveness of postal purchasing, to invest more authority in procurement professionals, to provide for the identification and qualification of suppliers and to emphasize the increasingly important areas of quality and competition.

Strides also have been made in materiel management. The Rapid Equipment Deployment Inventory program was expanded to assure that 130 items critical to postal operations can be shipped anywhere in the country within 48 hours. "Inventory Roundups"

Mail Volume 1984-1988
(pieces in billions)





Twenty-six post offices were designed with the computer-aided "Kit of Parts" in Fiscal Year 1988. Here, Mitchell H. Gordon, Senior Assistant Postmaster General, Administrative Services Group, visits the Bel Air, MD Post Office, which was designed with the "Kit of Parts."

were conducted in 24 field divisions to identify, redeploy or sell some \$11 million worth of low-use equipment. As a result of these roundups, which are scheduled to be conducted in all field divisions by the end of 1990, some 488,000 square feet of space was either freed for more suitable use or vacated from commercial warehouses.

Other Program Initiatives.

A systemwide review of all costs was begun to identify and act upon 10 to 20 other initiatives with potential to save \$100 million to \$200 million each. Under consideration are operational savings in the non-automated areas of mail processing, transportation, mail equipment and supply, management information systems, vehicle maintenance and revenue protection systems.

The decision to "make or buy" is another area being reviewed. Historically, the Postal Service has "contracted out" for several services vital to its function, including the transportation of mail and contract postal units. The Postal Service is also investigating further opportunities to "contract out" certain other functions and activities to provide the best service to its customers.

The Cordova, TN Post Office was built with the computer-aided "Kit of Parts." Using the "Kit of Parts" reduces the design phase of the construction process for post offices by up to seven months.



II Providing Quality Service and Expanded Convenience



Providing more courteous retail service was especially important in Fiscal Year 1988. Here, Senior Assistant Postmaster General, Marketing and Communications Group, Peter K. Eicborn reviews retail service operations with Washington, DC Lobby Director Marva Broadnax.

International Mail. The Postal Service handles approximately 40 percent of the world's mail. In recognition of the importance of the global marketplace, the focus on international matters was broadened during the fiscal year. In May, the position of Associate Postmaster General, International was created. This Associate was designated as chairman for the 20th Congress of the Universal Postal Union (UPU), which will be held in Washington, DC in 1989. The 169-member UPU is an official body of the United Nations, and its Congress will determine the policies under which international mail will be exchanged by member nations for the following five years.

In addition, the Associate oversees administration of the international mail function, both within the Postal Service and in our relationships with other postal administrations. This responsibility for external affairs has led to the Associate's providing leadership in multi-national organizations designed to expedite the world's mail exchanges.

Customer Conveniences.

Expanding levels of retail services without increasing postal costs received priority attention during the fiscal year. Numerous

innovations in this area were implemented or expanded, under the umbrella of a new "Easy Stamp" service.

- The stamp consignment program was expanded to 22 of the nation's 35 largest supermarket chains, extending these convenient stamp sales outlets by some 14,000 locations. Sales in this program increased from \$20 million in Fiscal Year 1987 to \$150 million in Fiscal Year 1988.
- The Stamps by Mail program continued to gain in popularity. It was supplemented during the rate adjustment period by a temporary expansion of the Stamps by Phone program which had been undergoing field testing. Customers used their telephones and credit cards to order more than \$4 million in stamps. (During the rate change, the Postal Service mailed a brochure with information about the new rates and "Easy Stamp" services to every American household.)
- The Postal Service also entered into a pilot agreement with Sears Roebuck and Co. during the year to test the operation of postal outlets in Sears stores in Madison, WI and throughout the greater Chicago area.



Postal customers now can add postage stamps to their grocery shopping list. Twenty-two of the nation's 35 largest supermarket chains joined the Postal Service's stamp consignment program in Fiscal Year 1988. The service expanded to some 14,000 locations during the fiscal year.



The Postal Service signed an agreement with Sears Roebuck and Co. to operate 11 contract postal outlets in the Chicago and Madison, WI areas. These customer convenience centers offer "one-stop shopping" during all normal Sears hours, including Sundays and holidays.

These customer convenience centers, which are open during all normal Sears hours including Sundays and evenings, offer a full range of postal products, including Express Mail Service, certified mail and registered mail to customers.

- A joint agreement with SeaFirst Bank of Seattle will result in the development of a First-Class stamp product that may be purchased through automated teller machines, and will provide customers with a range of automated banking and postal services.
- An agreement was reached with local transit authorities in Chicago and Washington, DC to install stamp vending equipment in train and subway stations.

Product Enhancements. To complement the expanding sales network for postal services, numerous product enhancements were brought on line during Fiscal Year 1988:

- The introduction of an Express Mail letter rate was a key ratemaking initiative, and the utilization of the transportation hub in Terre Haute, IN, provided the opportunity to create a morning delivery network for

Express Mail shipments in 45 metropolitan markets. Despite increasing competition, Express Mail volume increased six percent.

- Express Mail International Service was introduced to 19 additional nations, including the Soviet Union, and now reaches 88 countries. Negotiations are underway to expand the reach of this product into 43 more countries.
- The marketing of other international services continued to be emphasized. Revenue from International Priority Airmail (available to every country except Canada) and International Surface Air Lift (available to 125 nations) increased by 57 percent and 11 percent, respectively.
- Express Mail Military Service, which offers expedited service to military personnel and their families and friends, saw an increase of 60 percent over the previous fiscal year, as revenue reached \$4 million.
- Testing of a new service, Accelerated Reply Mail (ARM), continued. The ARM program

The Postal Service reached agreement with transit authorities in the Chicago area to install stamp vending equipment in transportation stations. Similar vending convenience agreements are also being developed with the transit authority in Washington, DC and with banks in other parts of the country.



will benefit firms that receive First-Class Mail with cash value. The operating objective of ARM is to enable firms to process remittances from customers earlier.

- The Address Change Service for publishers was expanded to provide for the inclusion of all major national publications. A new on-line service from the publishers' computer centers to the Postal Service's Address Information Center in Memphis also was initiated.
- The introduction of a new consumer assistance service, Postal Answer Line, commenced in September and will quickly expand to 62 cities. These computerized systems will allow customers to obtain information about postal products and services by telephone, 24 hours a day.

Interagency Cooperation.

Adding to its efforts to provide more of what its customers need at the times and in the locations convenient to them, the Postal Service provides support to other federal agencies which need to reach the public.

- The Postal Service coordinated the logistical planning for, and delivered, the Public Health Service's widely publicized national mailing of 114 million AIDS information pamphlets. This was the largest mailing ever delivered.

- Post offices continued to be the people's contact points for Selective Service Registration, for the State Department's passport applications, for the Veterans Administration's program to provide flags for veterans' burials, and for the purchase of the Department of the Interior's migratory wildfowl hunting stamps.
- The Postal Service also assisted the Bureau of the Census in planning and preparing for the 1990 census.
- The Postal Service created a noncompetitive hiring process for severely handicapped applicants in Fiscal Year 1988. This program allows the Veterans Administration and state agencies for the disabled (once certified by the Postal Service as having appropriate screening and development capabilities) to refer severely handicapped individuals for direct career appointments. More than 40 state agencies and the Veterans Administration participated in this plan in Fiscal Year 1988.

Community Relations. Systemwide, a different kind of customer service activity continued throughout the fiscal year — the involvement of managers, supervisors and other employees in community affairs. Formal activities, such as postmaster speeches and community open



The cornerstone of the Postal Service's retail network remains our 40,000 postal facilities and courteous professional service from postal career employees. Here, Los Angeles clerk Gussie Goins (right) assists a customer purchasing Express Mail service.



The Postal Service issued 62 stamps and stationery items in Fiscal Year 1988 — the most ever. More than 41 billion stamps were printed. Philatelic income for the fiscal year was more than \$142 million.



The Postal Inspection Service, the nation's oldest law enforcement agency, protects the Postal Service and its employees from criminal elements. Chief Postal Inspector Charles R. Clauson (right) views evidence through a comparison microscope with Dr. Gene Hepner in the Inspection Service's forensic science laboratory.

houses and tours, ran into the thousands nationwide. Postal employees contributed countless hours of service as Santa's helpers, friends to the needy, coaches, band leaders, volunteer firefighters and in many other roles in a traditional outpouring of volunteerism.

Support for local community social service agencies through the Carrier Alert program also continued. This program, pioneered by the Postal Service and the National Association of Letter Carriers in 1982, involves letter carriers who watch participants' mailboxes for mail accumulations that might signal illness or injury. Accumulations of mail are reported by carriers to their supervisors who then notify a sponsoring agency, through locally developed procedures, for follow-up action. Since its founding, this lifeline has been cited for saving dozens of lives.

The Postal Service became involved in the national effort to increase literacy and participated in the "Readasaurus" program which encouraged summer reading by children. The sponsoring group, Reading Is Fundamental, asked the students to mail a postcard containing the names of three books they read over the summer. One million postcards were returned.

The Postal Service also launched a "Plant a Family Tree" program to encourage the nation's children to discover their family's genealogy by writing to their grandparents and by filling in a "family tree" made available through the nation's 40,000 post offices.

Service Measurement. Another aspect of customer service is the measurement of service quality. The Postal Service Origin-Destination Information System provides a snapshot of the elapsed time between when mail is received by a postal facility and when it is presented for delivery to the recipient. These measurements do not include a mail slot to mail slot measurement which is of primary concern to senders and receivers of mail. The Consumer Advocate's duties were expanded to include assessment of current service performance measurement systems, consideration of new measurement systems more relevant to postal customers and reporting of service performance to a variety of audiences.

Progress continued toward the establishment of a Third-Class Mail Analysis System to provide operationally useful data to postal managers and service performance data specific to individual participating mailers. A joint action

group involving the Postal Service and the direct mail industry is addressing deliverability and other areas of mutual interest and benefit.

System Integrity. The Postal Inspection Service, charged with protecting the public and the public's interest in the postal system, continued its efforts to eliminate consumer fraud and misrepresentations through the mail. It conducted audits of postal capital expenditures, operations and programs to determine that planned results are being achieved. The oldest federal law enforcement agency, the Inspection Service also protects the Postal Service from criminal elements.

Postal Inspectors conducted 3,140 mail fraud investigations during Fiscal Year 1988 and made 1,488 arrests. Nearly 44 percent of the victims of the frauds were consumers; more than 39 percent were businesses; and more than 13 percent of the crimes were directed against the Postal Service or other government agencies.

In Fiscal Year 1988, 633 civil complaints were filed under the false representation statute.

Postmaster General Anthony M. Frank collects "Plant a Family Tree" letters from third-graders at King Elementary School in Dale City, VA. The "Plant a Family Tree" program encouraged children to write their grandparents to learn more about their family roots.



III Improving Working Relationships with Employees



Nearly 70,000 new postal employees received peer training in Fiscal Year 1988. Here, Senior Assistant Postmaster General, Human Resources Group, David H. Charters (left) attends a training class for new employees at the letter carrier academy in Memphis, TN.

The nation's largest civilian employer, the Postal Service also is among the largest employers of minorities, veterans and handicapped workers.

Fostering greater cooperation between management and labor within that work force increases the discretionary effort of postal workers in dealing with customers. To encourage greater communication, participation and respect among managers and employees, three human resource strategies are in place:

- Improving the working environment within the Postal Service;
- Hiring, developing, retaining and training a highly-qualified postal work force;
- Improving the functional effectiveness of human resource professionals within the Postal Service.

Progress toward each of these strategies was made throughout the fiscal year.

National Initiatives. At the national level, three leadership initiatives of note were begun with national postal unions.

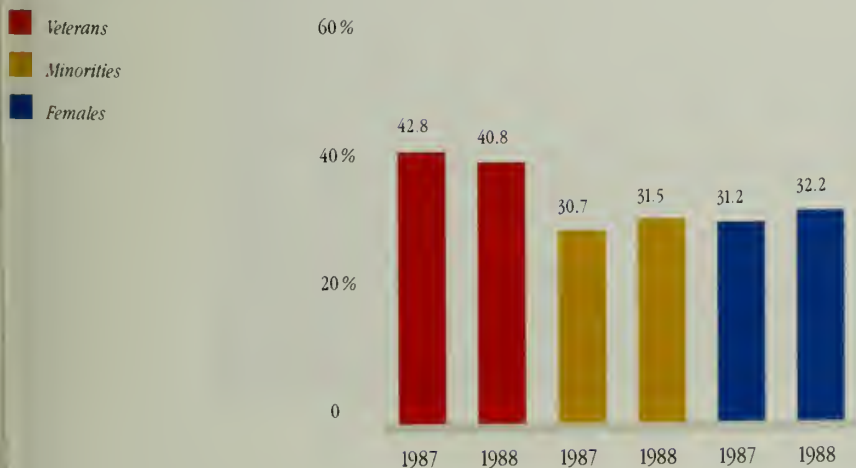
- The National Association of Letter Carriers and postal management signed a joint agreement to reduce the number of formal

grievance proceedings by 50 percent over the next year.

- A Labor Management Plan was developed in conjunction with the national unions to improve labor/management relationships and to enhance levels of trust, communication and dispute resolution. Local management and labor, with the assistance of Headquarters and regional union and management facilitators, worked together over an extended period of months to identify, discuss and resolve fundamental conflicts. The program was then introduced in Oklahoma City, where it has contributed to an 83 percent reduction in grievance appeals in that division. The plan also is working in North Suburban, IL, and Metairie, LA.
- For the first time since Postal Reorganization, the Postmaster General spoke before the letter carriers' annual convention, and the Board of Governors hosted a dinner for the leaders of the major unions. (The National Association of Letter Carriers later reciprocated.)

Field Initiatives. Field managers also worked closely with local union officials to enhance levels of trust,

**Veterans, Minorities, Females
Representation of Total Work
Force, Fiscal Year 1988**



communication and the ability to resolve disputes:

- In St. Louis, Union Management Pairs (UMPs), a cooperative effort between the National Association of Letter Carriers and postal management, has cleared up a 600-case backlog of grievances and improved the working relationship dramatically. This innovative program assigns a team comprised of one letter carrier and one manager to review disagreements, to encourage the parties to resolve differences, and if necessary to develop a final resolution.
- In Syracuse, NY, employees — working with the National Task Force on Child Care established by the Postal Service and the Joint Bargaining Committee of the American Postal Workers Union and the National Association of Letter Carriers — opened the "Little Eagles Child Care Center." This pilot facility, the first of its kind in the Postal Service, operates around-the-clock and provides affordable care for up to 33 children per tour. Employees formed a corporation to operate and fund

the center, and the Postal Service contributed space in the Syracuse Management Sectional Center.

Management Association Initiatives. The Postal Service joined with the National League of Postmasters, the National Association of Postmasters of the United States and the National Association of Postal Supervisors to implement "Management by Participation." This initiative will sponsor projects to engage all levels of management and labor in the process of creating a more participative culture within the Postal Service.

Training Initiatives. The recruitment and retention of highly qualified people throughout the nation continued to receive emphasis during Fiscal Year 1988:

- A new Technical Training Center in Norman, OK was completed and, when fully operational, will prepare more than 18,000 students to maintain the variety of mechanized and automated equipment being deployed throughout the postal system. In order to meet the demand for qualified maintenance

personnel, training will be conducted in two shifts.

- A new Computer Assisted Scheme Training program, which teaches clerks how to route the mail correctly in 12 percent less time, is being implemented.
- Innovative teletraining techniques are being tested to increase technical training opportunities while reducing travel-related costs.
- A career pattern program has been established in an effort to develop future Field Division General Managers. The program, currently involving about 60 postal executives, provides a "road map" to assure that field managers are provided with balanced experience.
- A management intern program was established to identify graduate business students with high potential for entry into the Postal Service's structured career development programs.

Employee Involvement. Significant cost reductions were achieved through the continued utilization of the Employee Involvement/Quality of Working Life and related programs. Three

innovative programs, among many, illustrate the potential of these efforts:

- In New Brunswick, NJ, a mail handlers' quality circle addressed the problem of improperly prepared pallets and, by working with the affected customer, produced more efficient service while capturing \$160,000 in annual savings.
- A letter carrier team in Oklahoma City developed a method to adjust routes which saved some \$79,000.
- In Los Angeles, a work team developed a paper recycling plan which produced \$30,000 in unexpected revenue.

In addition, some 10,000 employee suggestions were adopted and saved the Postal Service more than \$5 million.

The National Association of Letter Carriers (NALC) and postal management signed a joint agreement to reduce the number of formal grievances by 50 percent in the next year. NALC Executive Vice President Francis Connors (far left) and Assistant Postmaster General, Labor Relations, Joseph Mabon (far right) look on as Postmaster General Anthony M. Frank (inside left) and NALC President Vincent Sombrotto seal the agreement with a handshake.



Discussion of Financial and Operating Results



The Postal Service has received no Public Service appropriation since 1982. Here, Comer S. Coppie, Senior Assistant Postmaster General, Finance Group, gives briefing about Postal Service's declining receipt of federal appropriations since 1970.

Financial Performance. The Postal Service incurred a net loss of \$596.9 million for the fiscal year which ended September 30, 1988.

The result would have been significantly closer to break-even had the Omnibus Budget Reconciliation Act of 1987 not required \$510 million in payments for retirees' cost-of-living allowances and health benefits.

In the past 10 years, the Postal Service has operated in the black five times and in the red five times. Over that period, the Postal Service had a surplus of \$345 million.

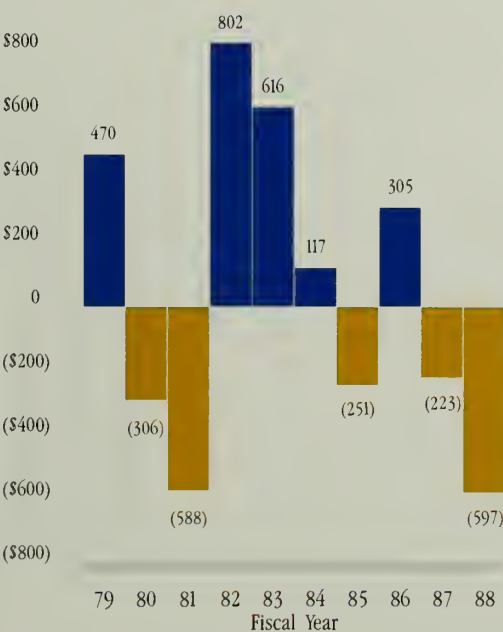
Total revenue in Fiscal Year 1988 amounted to \$35.9 billion, which was in line with projections for the fiscal year. The total revenue represented a \$3.4 billion increase over Fiscal Year 1987. Volume increased approximately 4.3 percent over the previous fiscal year. The 11 percent increase in operating revenue was due to the April rate increase and the growth in total volume noted. Revenue from operations was \$35.5 billion (including the Revenue Forgone appropriation), and investment income was \$386 million. Net revenue gain for Fiscal Year 1988 due to rate

implementation was \$1.98 billion. This includes revenue gains of \$2.5 billion from rate variances and revenue losses of \$556 million from declines in volume after rate implementation.

Expenses for the fiscal year totaled \$36.5 billion, and also were very close to projections for the year. Expense increases in health benefits, cost-of-living allowances and the Omnibus Budget Reconciliation Act requirements all were significant for the year.

Growth in volume and expansion of the delivery network by 1.8 million addresses resulted in new expenses totaling more than \$500 million. Salaries and employee benefits expenses also rose by 11.9 percent for the fiscal year. A significant factor in this increase was the cash payment of \$350 million to the Civil Service Retirement and Disability Fund in accordance with the terms of the Omnibus Budget Reconciliation Act. Total health benefits costs, including the \$160 million payment required by the Omnibus Budget Reconciliation Act, were \$1.6 billion. This represents an increase of almost \$600 million or 60 percent greater than Fiscal Year 1987.

Net Income (Loss)
(dollars in millions)





The Law Department, in cooperation with the Postal Inspection Service, initiated 633 civil complaints under False Representation statutes in Fiscal Year 1988. Louis A. Cox, General Counsel, (right) oversees the Law and Government Relations Departments.

The financial responsibilities of the Federal Employees Retirement System (about \$734 million more than would have been incurred under the Civil Service Retirement System) also were felt. Total retirement expenses (including Social Security payments) increased \$918 million over Fiscal Year 1987.

Productivity. Postal Service workload increased 0.6 percent faster than labor usage during the fiscal year. Total factor productivity (TFP) for the fiscal year, which takes into account the share of mail volume presorted by mailers, increased use of automated and mechanized equipment, facilities development and growth in deliveries, increased by 0.1 percent. This TFP was the net result of substantial increases in the first three quarters followed by a decline of 1.5 percent in the fourth quarter. Workload in the fourth quarter was well below plan, while labor usage exceeded plan. From 1971 through 1987, the Postal Service's TFP has increased on average by 0.3 percent,

the same level of increase as in the non-farm private sector.

Capital Investments. The Omnibus Budget Reconciliation Act limited new capital commitments for the fiscal year to \$625 million. (The original plan for new capital commitments was \$2.4 billion.) Commitments were prioritized to ensure that limited resources were placed on those capital investments with the greatest impact on productivity.

Capital commitments of \$92 million were made for automated and other mail processing equipment during the fiscal year. Commitments of \$393 million related to facilities programs, \$64 million for customer service equipment, \$65 million for postal support equipment and \$10 million for vehicles also were made.

Further limitations on Fiscal Year 1989 capital commitments were included in the Omnibus Budget Reconciliation Act of 1987, and a discussion of the impact of these measures is included in

Total Factor Productivity: USPS vs Private Non-Farm Sector

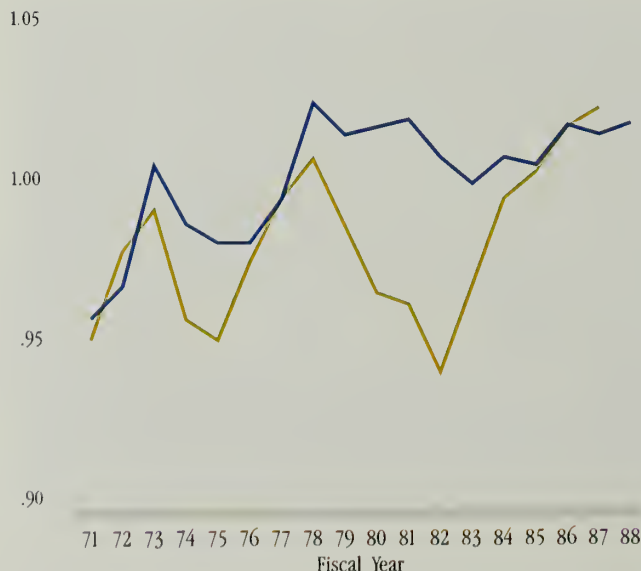
Index 1977 = 1.00

— USPS
— Private Non-Farm Sector

This chart reflects the cumulative change in total factor productivity (TFP) since 1971. Postal Service TFP has grown 0.3% per year on average, essentially the same as the entire private non-farm sector of the economy.

(Note: For 1977 and 1986 the Postal Service TFP and the Private Sector TFP were the same. Private Sector TFP for 1988 had not been calculated at press time.)

Source: USPS and Bureau of Labor Statistics



the notes to Financial Statements of this report.

A new \$12.9 billion capital investment plan for Fiscal Years 1989-1993, reflecting the limitations of the Act, was developed during the fiscal year and was approved by the Board of Governors in October 1988. This plan includes modest increases in the latter years to compensate for the impact of the Act and reflects the Postal Service's commitment to automation. Planned commitments include \$6.7 billion for facility-related projects, \$4.6 billion for mail processing equipment, \$443 million for vehicles and \$1.2 billion for customer service equipment and postal support equipment.

Service Performance. Although down slightly from the previous fiscal year, service performance based upon the Origin-Destination Information System (ODIS) measurement remained high. Overnight Stamped First-Class Mail met its standard of 95 percent availability for delivery, nearly matching Fiscal Year 1987's mark of 96 percent. Performance for overnight-committed metered First-Class Mail was 91 percent,

four points below the standard. Service performance for second- and third-day committed First-Class Mail ranged from 85 percent to 89 percent on-time overall. The on-time performance for Express Mail service reached 93.4 percent, and the new morning network delivery performance was nearly 95 percent by year's end.

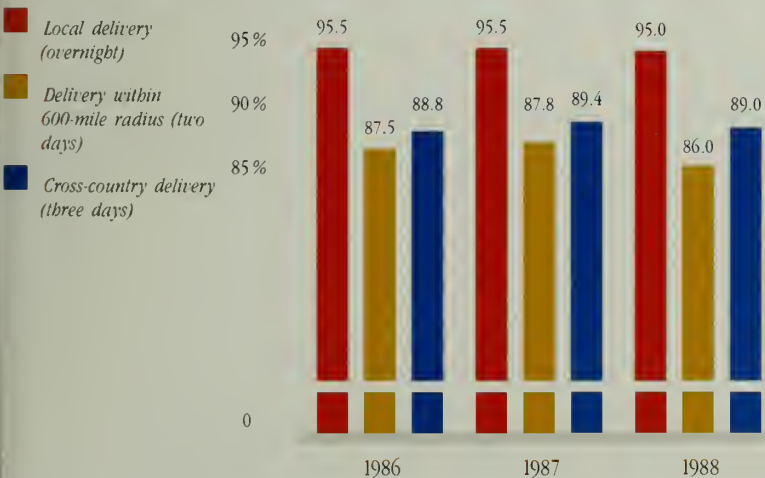
In another measure of service performance — customer feedback — the effects of the Omnibus Budget Reconciliation Act were apparent. Complaints pertaining to retail hours, lobby lines and window transaction errors increased sharply in the second quarter of the fiscal year, when the Postal Service announced its adjustment of retail hours. Average customer contacts peaked at a monthly level of approximately 4,000 in the third quarter and dropped sharply (to approximately 500 per month) when retail hours were restored in mid-September.

The National Tracking Study — which surveys about 1,000 customers twice a year — continued to reflect consumer confidence in the Postal Service. The most recent survey conducted in April indicated that 79 percent

of these respondents said their perceptions of the Postal Service were either "very favorable" or "somewhat favorable." These results compare with an overall favorable rating of 83 percent in the previous survey conducted at the beginning of Fiscal Year 1988 and with 81 percent in April 1985, shortly after the Postal Service implemented its last general rate increase prior to 1988.

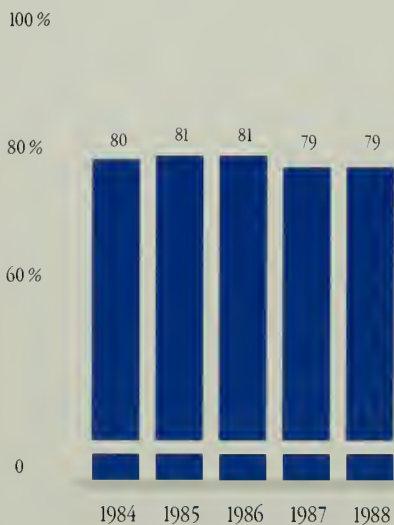
National Service Performance

(Stamped First-Class Mail)



National Tracking Study

The National Tracking Study reflected continuing consumer confidence in the Postal Service. This chart illustrates the results of the April surveys from the last five years. In April 1988, 79 percent of respondents perceived the Postal Service as "very or somewhat favorable."



Financial Statements

Balance Sheets

United States Postal Service

Sept. 30, 1988

Sept. 30, 1987

Assets

(dollars in thousands)

Current assets

Cash and cash equivalents—Note 1 \$ 1,162,753 \$ 1,815,966

U.S. Government securities, at amortized cost, which
approximates market 2,784,432 2,803,085

Receivables

Foreign countries 326,768 339,624

U.S. Government 226,780 154,846

Accrued interest 29,641 52,896

Other 61,650 54,509

644,839 601,875

Less allowances 22,869 21,853

621,970 580,022

Supplies, advances and prepayments 162,667 141,451

Total current assets 4,731,822 5,340,524

Other assets—Note 5 13,418 21,104

Property and equipment, at cost—Note 5

Buildings 6,210,450 5,462,994

Equipment 4,081,902 3,440,913

Land 1,037,934 837,640

11,330,286 9,741,547

Less allowances for depreciation 3,528,994 3,113,803

7,801,292 6,627,744

Construction in progress 1,526,849 1,538,895

Leasehold improvements, net of amortization 208,886 175,123

9,537,027 8,341,762

Deferred retirement costs—Note 4 20,389,995 18,383,823

\$34,672,262 \$32,087,213

Sept. 30, 1988

Sept. 30, 1987

Liabilities and Equity (Net Capital Deficiency)*(dollars in thousands)*

Current liabilities

Compensation and employees' benefits	\$ 1,959,258	\$ 2,074,855
Estimated prepaid postage	1,196,000	1,084,000
Payables and accrued expenses		
Foreign countries	362,486	364,042
U.S. Government	241,977	187,699
Other	249,775	529,901
	854,238	1,081,642
Prepaid permit mail and box rentals	786,690	678,472
Outstanding postal money orders	436,183	390,963
Current portion of long-term debt	267,200	293,200
Total current liabilities	5,499,569	5,603,132

Long-term debt, less current portion—Note 5	5,612,704	4,434,623
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Other liabilities

Amounts payable for retirement benefits—Note 4	19,740,843	17,934,734
Workers' compensation claims	3,367,000	3,118,000
Employees' accumulated leave	882,580	838,497
Other	30,000	20,000
	24,020,423	21,911,231

Commitments and contingencies—Notes 4, 6 and 7

Equity (net capital deficiency)

Capital contributions of the U.S. Government	3,038,500	3,040,251
Deficit from operations since commencement		
on July 1, 1971	(3,498,934)	(2,902,024)
Total equity (net capital deficiency)	(460,434)	138,227
	<u>\$34,672,262</u>	<u>\$32,087,213</u>

Statements of Operations and Changes In Equity (Net Capital Deficiency)

United States Postal Service	Year Ended Sept. 30, 1988	Year Ended Sept. 30, 1987
	<i>(dollars in thousands)</i>	
Operating revenue—Note 2	\$35,552,753	\$32,178,112
Operating expenses		
Compensation and employees' benefits—Notes 3 and 4	30,478,649	27,228,844
Other	5,640,537	5,290,845
	<u>36,119,186</u>	<u>32,519,689</u>
Loss from operations	(566,433)	(341,577)
Interest income	386,016	327,186
Interest expense	<u>(416,493)</u>	<u>(208,295)</u>
Net loss	(596,910)	(222,686)
Equity—beginning of year	138,227	361,868
Capital equipment transferred to U.S. Government	(1,751)	(955)
Equity (net capital deficiency)—end of year	<u>(\$ 460,434)</u>	<u>\$ 138,227</u>

Statements of Cash Flows

United States Postal Service	Year Ended Sept. 30, 1988	Year Ended Sept. 30, 1987
<i>(dollars in thousands)</i>		
Cash flows from operating activities:		
Net loss	(\$ 596,910)	(\$ 222,686)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	510,489	414,290
Increase in non-current workers' compensation claims	249,000	70,000
Increase in estimated prepaid postage	112,000	65,000
Increase in prepaid permit mail and box rentals	108,218	64,196
Increase in outstanding postal money orders	45,220	30,376
Increase in employees' accumulated leave	44,083	23,564
Increase in other liabilities	10,000	—
Increase in retirement costs, net	(200,063)	(36,303)
(Decrease) increase in payables and accrued expenses	(227,404)	139,524
(Decrease) increase in accrued compensation and employees' benefits	(115,597)	306,165
Increase in receivables	(41,948)	(37,294)
(Increase) decrease in supplies, advances and prepayments	(21,216)	22,251
Net cash provided (used) by operating activities	(124,128)	839,083
Cash flows from investing activities:		
Sale (purchase) of U.S. Government securities, net	18,653	(1,332,958)
Purchase of property and equipment, net	(1,707,505)	(1,663,769)
Net cash used in investing activities	(1,688,852)	(2,996,727)
Cash flows from financing activities:		
Increase in long-term debt	1,414,000	1,635,000
Decrease (increase) in other assets	7,686	(1,727)
Payments on long-term obligations	(261,919)	(141,626)
Net cash provided by financing activities	1,159,767	1,491,647
Net decrease in cash and cash equivalents	(653,213)	(665,997)
Cash and cash equivalents at beginning of year	1,815,966	2,481,963
Cash and cash equivalents at end of year	<u>\$1,162,753</u>	<u>\$1,815,966</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	<u>\$ 451,674</u>	<u>\$ 244,932</u>
Cash received during the year for interest	<u>\$ 409,271</u>	<u>\$ 291,497</u>

United States Postal Service Notes to Financial Statements

September 30, 1988 and 1987

Note 1 Postal Reorganization and Accounting Policies

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

The Postal Service adopted Statement of Financial Accounting Standards (SFAS) No. 95 "Statement of Cash Flows" in Fiscal Year 1988, and accordingly has restated the comparative financial statements for Fiscal Year 1987. Cash equivalents include highly liquid instruments with maturities of 90 days or less in accordance with SFAS No. 95.

Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease period or their useful life. Repairs and maintenance costs which do not materially extend the life of assets are expensed as incurred.

Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to approximately \$47,000,000 in Fiscal Year 1988 and \$44,000,000 in Fiscal Year 1987.

Workers' compensation costs are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends and other factors.

Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

Amounts payable for retirement benefits reflect the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the Fund) arising from increases in basic pay in an amount equal to the present value of the equal annual installments due to the Fund and payable over a 30-year time period. Amounts applicable to operations of future years are charged to deferred retirement costs and are subsequently amortized through operating expenses.

Effective with the passage of Public Law 99-272, the Postal Service became responsible for paying the employer's share of health benefits for its career employees retiring on or after October 1, 1986. These costs totaled approximately \$53,000,000 in Fiscal Year 1988 and \$10,000,000 in Fiscal Year 1987.

Note 2 Revenue Forgone

Included in operating revenue is revenue forgone. Revenue forgone represents reimbursement

to the Postal Service for revenues lost as a result of charging lower rates for certain mail categories which Congress has determined should be subsidized through tax dollars. Accordingly, the Postal Reorganization Act authorizes that the Postal Service receive revenue forgone to compensate for this lost revenue. Revenue forgone received during Fiscal Years 1988 and 1987 totaled \$517,000,000 and \$650,000,000, respectively.

Note 3 The Omnibus Budget Reconciliation Act of 1987

The Omnibus Budget Reconciliation Act (OBRA) of 1987 required the Postal Service to make additional payments of \$350,000,000 to the Civil Service Retirement and Disability Fund and \$160,000,000 to the Federal Employee Health Benefits Fund during Fiscal Year 1988. Both these amounts are included in expenses for compensation and employee benefits in the Statements of Operations and Changes in Equity (Net Capital Deficiency) for Fiscal Year 1988. For Fiscal Year 1989, the Postal Service is required to pay an additional \$270,000,000 to the Federal Employee Health Benefit Fund.

The OBRA also limited capital investment commitments to \$625,000,000 for Fiscal Year 1988 and \$1,995,000,000 for Fiscal Year 1989 and required a deposit of \$465,000,000 in an escrow account with the U.S. Treasury by October 31, 1988. The deposit is refundable on October 1, 1989 so long as the Postal Service complies with the savings provisions specified by OBRA. The savings provisions require the Postal Service to reduce operating expenses by \$160,000,000 and \$270,000,000 in Fiscal Years 1988 and 1989, respectively. Such provisions were certified by the General Accounting

Office (GAO) as having been met by the Postal Service for Fiscal Year 1988 in their report to Congress on October 31, 1988.

Note 4 Retirement Programs

Description of Plans and Contribution Rates — The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the Civil Service Retirement Program (the Program). Under this Program, the Postal Service and employees hired prior to January 1, 1984 each contribute 7 percent of basic annual salary to the Civil Service Retirement and Disability Fund (the Fund) and 1.45 percent of gross wages for Social Security for Medicare in 1988 and 1987.

Employees hired between January 1, 1984 and January 1, 1987 were covered by the provisions of the Dual Civil Service Retirement/Social Security System until January 1, 1987. Certain employees with prior government service continue to be covered by such provisions. During Fiscal Years 1988 and 1987, these employees contributed .94 percent and 1.3 percent, respectively, of basic annual salary to the Fund, while the Postal Service contributed 7 percent each year. These employees and the Postal Service each contributed 7.51 percent and 7.15 percent of gross wages for Social Security for Fiscal Years 1988 and 1987, respectively.

From January 1, 1987, employees hired since January 1, 1984, except as noted above, are subject to the provisions of the Federal Employees Retirement System (FERS) Act of 1986. Employees hired prior to January 1, 1984, were able to elect participation in FERS between July 1, 1987 and December 31, 1987.

and between April 1, 1988 and June 30, 1988. FERS is a three-tier retirement system consisting of Social Security, a basic annuity plan and a thrift savings plan.

During Fiscal Years 1988 and 1987, FERS required contributions to the Social Security Trust Fund amounting to 7.51 percent and 7.15 percent, respectively, of gross wages for Social Security from the Postal Service and participating employees. In addition, the Postal Service and participating employees contributed 12.86 percent and .94 percent, respectively, of basic annual salary for the basic annuity plan in Fiscal Year 1988 and 13.5 percent and 1.3 percent, respectively, in Fiscal Year 1987.

The Postal Service is also required to contribute a minimum of one percent per annum of the basic annual salary of participating employees to the thrift savings plan. Contributions by employees to the thrift savings plan are voluntary and are fully matched by the Postal Service up to 3 percent of basic annual salary and at a 50 percent rate between 3 percent and 5 percent of basic annual salary.

Unfunded Liability — Under the Civil Service Retirement Program, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the Fund attributable to Postal Service employee-management agreements that authorize increases in basic annual salary on which benefits payable from the Fund are computed. The estimated increase in the unfunded liability as determined by the Office of Personnel Management (OPM) is paid by the Postal Service in 30 equal annual installments with interest computed at the rate used

in the most recent valuation of the Civil Service Retirement System (currently 5 percent). The first payment thereof is due at the end of the fiscal year in which an increase in the basic annual salary becomes effective.

Contributions to the basic annuity plan of FERS are determined by OPM with the objective that benefits under FERS be fully funded. Unfunded liabilities of the basic annuity plan, if any, related to Postal Service employees as determined by OPM will be funded by the Postal Service through supplemental contributions over 30 years with interest.

The increases in the unfunded liability for retirement benefits under the Civil Service Retirement Program in Fiscal Years 1988 and 1987 were \$2,677,343,000 and \$803,332,000, respectively. The 1988 increase includes \$2,219,720,000 for cost-of-living-allowances (COLAs) paid in Fiscal Years 1985-1987 under the provisions of the 1984 employee-management agreement. As a result of the 1987 contract negotiations, these COLA amounts were included in basic annual salary in October 1987. COLAs accumulated under the 1987 agreement will not become part of basic annual salary until February 1991. The total increases in the annual payment that resulted from increases in basic annual salary were \$165,871,000 (of which \$137,520,000 related to COLAs) for Fiscal Year 1988 and \$48,315,000 for Fiscal Year 1987.

The estimated future minimum payments required to fund amounts payable for retirement benefits on September 30, 1988, are as follows:

Fiscal Year	Amount
1989	\$ 1,567,242,000
1990	1,567,242,000
1991	1,567,242,000
1992	1,567,242,000
1993	1,567,242,000
Thereafter	26,858,059,000
	<u>34,694,269,000</u>
Less amount representing interest and the portion classified as a current liability	14,953,426,000
	<u>\$19,740,843,000</u>

Aggregate retirement expenses, including payments for Social Security, for Fiscal Years 1988 and 1987 were \$4,133,000,000 and \$3,215,000,000, respectively, including \$1,568,204,000 and \$1,366,525,000, respectively, attributable to amortization of deferred retirement costs and interest on the unfunded liability, and \$106,660,000 and \$50,131,000, respectively, for Postal Service contributions to the Thrift Savings Plan. Also included in retirement expenses in Fiscal Year 1988 is a \$350,000,000 special payment to the Fund pursuant to requirements of the OBRA (See Note 3).

Note 5
Long-Term Debt and
Interest Costs

The Postal Reorganization Act authorizes the Postal Service to issue and sell obligations not to exceed \$10,000,000,000 outstanding at any one time. The net increase outstanding in any one year shall not exceed \$1,500,000,000 for capital improvements and \$500,000,000 for operating expenses. Such obligations shall not be obligations of the U.S. Government unless the Secretary of the Treasury, upon request of the Postal Service, determines that it would be in the public interest to pledge the full faith and credit of the Government of the United States.

The 6 7/8% Postal Service Bonds, Series A, were issued under a Trust Indenture dated February 1, 1972, and are secured by a first lien on the revenue, income, fees, rents, appropriations, and other receipts of the Postal Service; the proceeds of all obligations issued by the Postal Service;

and all sinking and improvement funds established pursuant to the Trust Indenture. On July 31 of each year, the Postal Service is required to deposit in a sinking and improvement fund the sum of \$10,000,000 either in cash or reacquired Series A Bonds. However, the Trust Indenture further provides that, at the option of the Postal Service, such sinking fund requirements may be applied to the payment of costs of capital additions or improvements to properties of the Postal Service. Since the commencement of the sinking fund in 1978, the Postal Service has applied \$104,110,000 to the construction of mail facilities. The balance in the sinking fund (\$5,890,000 in 1988 and \$12,200,000 in 1987) is classified with other assets in the accompanying balance sheets. The bonds are redeemable prior to maturity, at the option of the Postal Service, at the principal amount plus accrued interest.

Long-term debt consists of the following:

	September 30	
	1988	1987
6-7/8% Postal Service Bonds, Series A, due February 1, 1997	\$ 250,000,000	\$ 250,000,000
Notes payable to Federal Financing Bank:		
8.075% payable \$32,000,000		
each year to May 31, 2000 . . .	384,000,000	416,000,000
7.80% payable \$15,000,000		
each year to May 31, 2001 . . .	195,000,000	210,000,000
10.475% payable \$38,800,000		
each year to May 31, 2010 . . .	853,600,000	892,400,000
7.591% payable \$50,000,000		
each year to May 31, 2011 . . .	1,150,000,000	1,200,000,000
8.474% payable \$30,000,000		
each year to May 31, 2012 . . .	720,000,000	750,000,000
8.908% payable \$35,400,000		
each year to May 31, 2012 . . .	849,600,000	885,000,000
9.074% payable \$60,000,000		
each year to May 31, 2012 . . .	1,440,000,000	—
Mortgage notes payable including interest of 4.75% to 12.5% maturing from Fiscal Years 1989 through 2013 secured by land, buildings and equipment with a carrying amount of \$135,000,000 (aggregate annual installments approximate \$6,000,000)	37,704,000	124,423,000
	5,879,904,000	4,727,823,000
Less current portion	267,200,000	293,200,000
	<u>\$5,612,704,000</u>	<u>\$4,434,623,000</u>

Note 6 Commitments

At September 30, 1988, the estimated cost to complete approved Postal Service capital projects was approximately \$1,569,000,000.

Total rental expense for the years ended September 30, 1988 and 1987 is summarized as follows:

	1988	1987
Noncancellable real estate leases including related taxes (1988 \$40,000,000; 1987 \$37,800,000)	\$433,700,000	\$405,000,000
Facilities leased from General Services Administration subject to 120-day notice of cancellation	39,700,000	37,200,000
Equipment and other short-term rentals	61,200,000	66,800,000
	<u>\$534,600,000</u>	<u>\$509,000,000</u>

At September 30, 1988, the future minimum rentals for all noncancellable leases approximate the following:

Year	Total
1989	\$ 365,000,000
1990	327,000,000
1991	268,000,000
1992	209,000,000
1993	156,000,000
Thereafter	606,000,000
	<u>\$1,931,000,000</u>

Most of these leases contain renewable options for periods ranging from three to twenty years. Certain noncancellable real estate leases have options to purchase the facilities at prices specified in the leases.

Note 7 Contingencies

Several equal employment opportunity, employee compensation and postal rate class action lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages, and suits and claims arising out of postal contracts.

In the opinion of management and General Counsel, adequate provision has been made for amounts which may become due under the suits, claims, and proceedings discussed in the preceding paragraph.

Report of Independent Public Accountants

Board of Governors United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service (Postal Service) at September 30, 1988 and 1987, and the related statements of operations and changes in equity (net capital deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence

supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1988 and 1987, and the results of operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Arthur Young & Company

Arthur Young & Company
Washington, DC

November 17, 1988

Financial History Summary

	1988	1987	1986	1985	1984
Statement of Operations					
	<i>(dollars in thousands)</i>				
Operating revenue	\$35,035,753	\$31,528,112	\$30,102,091	\$27,736,071	\$25,313,554
Public service appropriation	0	0	0	0	0
Revenue forgone appropriation	517,000	650,000	715,836	969,620	879,000
Total operating revenue	35,552,753	32,178,112	30,817,927	28,705,691	26,192,554
Salaries and benefits	30,478,649	27,228,844	25,575,894	24,349,087	22,157,261
Other expenses	5,640,537	5,290,845	5,140,701	4,858,114	4,200,092
Total operating expenses	36,119,186	32,519,689	30,716,595	29,207,201	26,357,353
Operating income (loss)	(566,433)	(341,577)	101,332	(501,510)	(164,799)
Other income (loss)	(30,477)	118,891	203,276	250,030	282,151
Net income	<u>(\$ 596,910)</u>	<u>(\$ 222,686)</u>	<u>\$ 304,608</u>	<u>(\$ 251,480)</u>	<u>\$ 117,352</u>

Balance Sheet

Assets					
Current assets	\$ 4,731,822	\$ 5,340,524	\$ 4,658,520	\$ 3,234,741	\$ 3,332,636
Property, plant and equipment, deferred retirement costs and other assets	29,940,440	26,746,689	25,155,662	23,825,476	18,227,022
Total assets	<u>\$34,672,262</u>	<u>\$32,087,213</u>	<u>\$29,814,182</u>	<u>\$27,060,217</u>	<u>\$21,559,658</u>
Liabilities					
Current liabilities	\$ 5,499,569	\$ 5,603,132	\$ 4,846,471	\$ 4,311,893	\$ 4,375,896
Other liabilities	24,020,423	21,911,231	21,513,194	20,706,697	15,780,759
Long-term debt—bonds, notes and mortgages	5,612,704	4,434,623	3,092,649	1,983,263	1,092,264
Equity (net capital deficiency)	(460,434)	138,227	361,868	58,364	310,739
Total liabilities and equity	<u>\$34,672,262</u>	<u>\$32,087,213</u>	<u>\$29,814,182</u>	<u>\$27,060,217</u>	<u>\$21,559,658</u>

Analysis of Changes in Equity (Net Capital Deficiency)

Beginning balance	\$ 138,227	\$ 361,868	\$ 58,364	\$ 310,739	\$ 111,770
Net income (loss)	(596,910)	(222,686)	304,608	(251,480)	117,352
Capital contributions	(1,751)	(955)	(1,104)	(895)	81,617
Ending balance	<u>(\$ 460,434)</u>	<u>\$ 138,227</u>	<u>\$ 361,868</u>	<u>\$ 58,364</u>	<u>\$ 310,739</u>

Impact of Revenue Forgone Appropriation* on Revenues Fiscal Year 1988

Classes of Service	Total Income of Service	Income from Revenues	Income From Appropriation	Appropriation as a Percentage of Income
<i>(dollars in millions)</i>				
First-Class Mail	\$20,738.7	\$20,738.7	none	none
Priority Mail	1,219.9	1,219.9	none	none
Express Mail	503.3	505.3	none	none
Mailgram	11.8	11.8	none	none
Second-Class Mail				
Within-the-country	\$ 145.4	\$ 98.8	\$ 46.6	32.0 %
Outside-the-country				
Nonprofit publications	258.1	210.1	48.0	18.6 %
Classroom publications	9.4	7.7	1.7	18.1 %
Regular-rate publications	1,065.8	1,065.4	0.4	0.0 %
Fees	11.4	11.4	none	none
Total Second-Class Mail	\$ 1,490.1	\$ 1,393.4	\$ 96.7	6.5 %
Third-Class Mail				
Single-piece rate	\$ 162.1	\$ 162.1	none	none
Regular bulk rate	6,055.9	6,055.9	none	none
Nonprofit bulk rate	1,262.0	859.6	\$ 402.4	31.9 %
Fees	53.1	53.1	none	none
Total Third-Class Mail	\$ 7,533.1	\$ 7,130.7	\$ 402.4	5.3 %
Fourth-Class Mail				
Parcels (zone rate)	\$ 389.8	\$ 389.8	none	none
Bound printed matter	200.8	200.8	none	none
Special-rate matter	222.9	222.9	none	none
Library materials	66.9	57.5	\$ 9.4	14.1 %
Fees	1.9	1.9	none	none
Total Fourth-Class Mail	\$ 882.3	\$ 872.9	\$ 9.4	1.1 %
U.S. Government (franked and penalty) mail	\$ 1,078.7	\$ 1,078.7	none	none
Free mail for the blind and handicapped	27.0	—	\$ 27.0	100.0 %
International mail	971.5	971.5	none	none
Totals	\$34,458.4	\$33,922.9	\$ 535.5	1.6 %
Adjustment for prior years			— 18.5	
Total			\$ 517.0	

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss is given to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

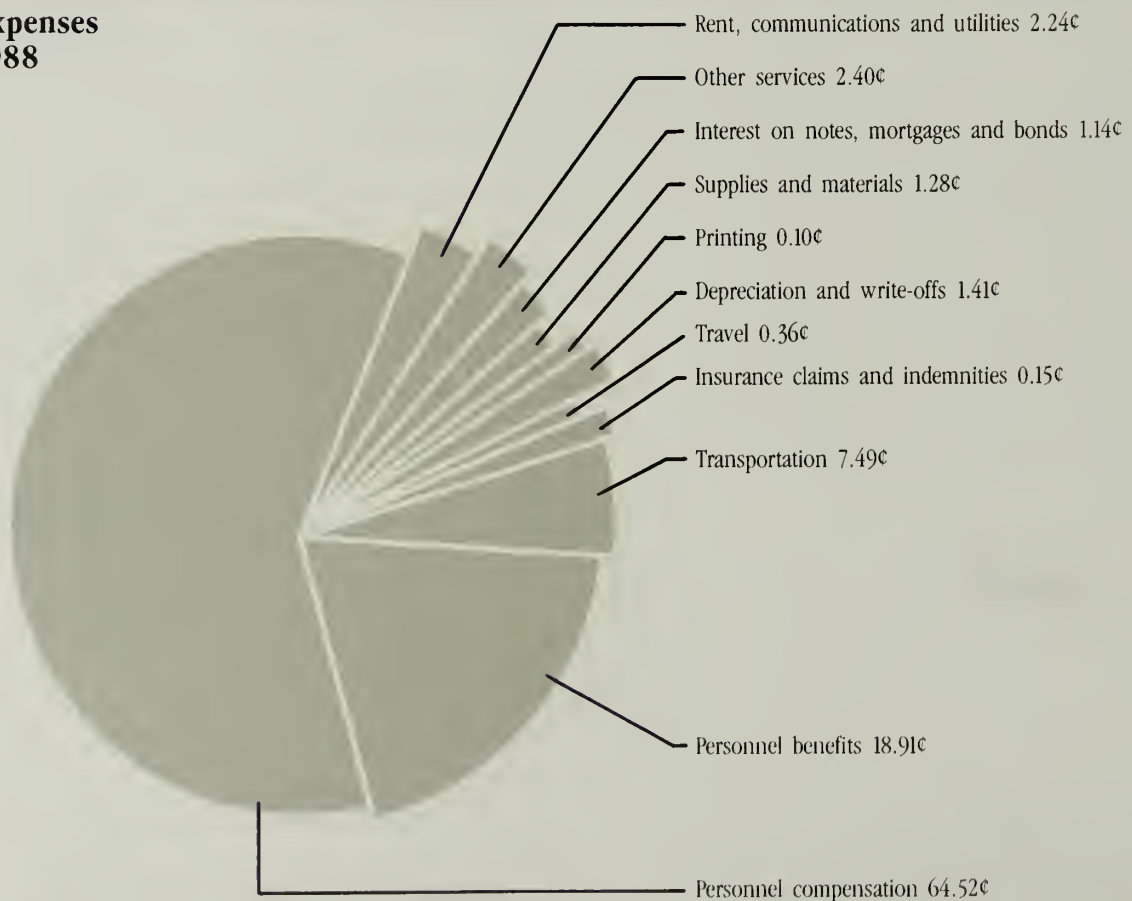
Source of Income

Fiscal Year 1988

<i>(millions of dollars)</i>		
Mail Revenue:		
Postage	\$32,844.2	
Federal Government payments	1,078.7	\$33,922.9
Special services		1,112.9
Government appropriations:		
Revenue forgone appropriations for free and reduced rate mail		517.0
Total income		35,552.8
Total operating expenses		36,119.2
Loss from operations		(566.4)
Interest income		386.0
Interest expense		(416.5)
Net income (loss)		(\$ 596.9)

Analysis of Expenses

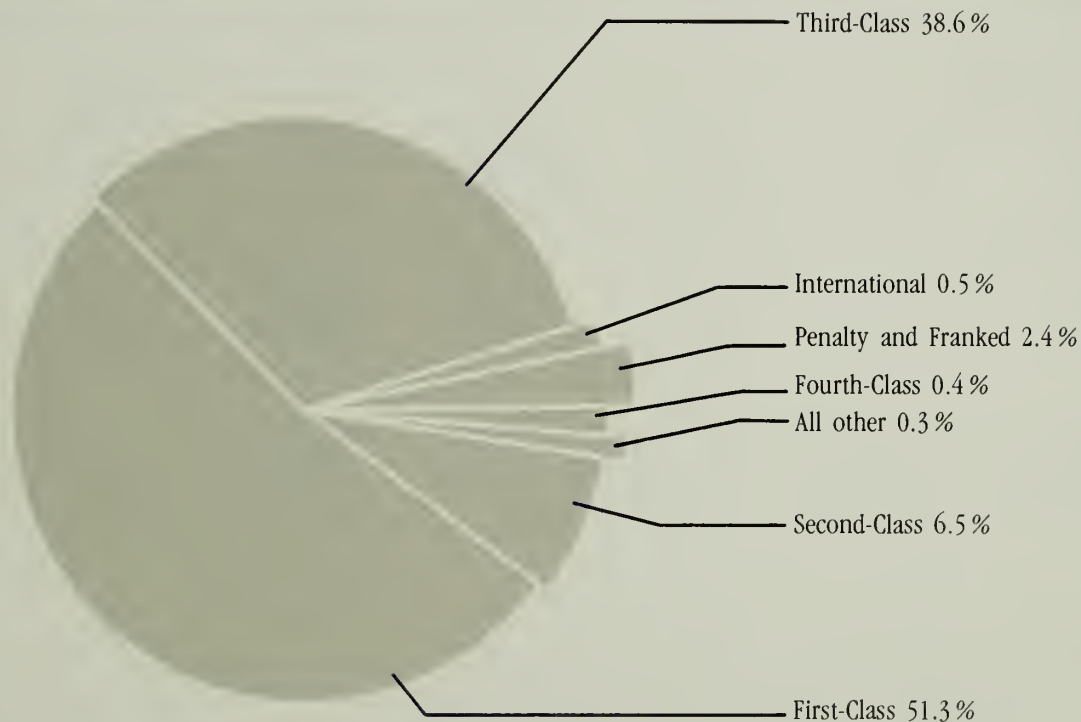
Fiscal Year 1988



Analysis of Mail Volume Fiscal Year 1988

	1988	1987	Percent Change
	<i>(pieces in billions)</i>		
First-Class	82.32	78.87	4.4
Second-Class	10.45	10.32	1.2
Third-Class	61.97	59.73	3.7
Fourth-Class	.65	.62	5.5
Penalty and Franked.....	3.88	3.15	23.1
International	.72	.78	- 7.4
All other	.50	.46	10.4
Total Mail	160.49	153.93	4.3

Composition of Mail Fiscal Year 1988



Operating Statistics

Classes of Mail	1988	1987	1986	1985	1984
<i>(in thousands of units indicated)</i>					
First-Class					
Pieces, number.....	82,316,607	78,869,309	76,186,648	72,440,277	68,428,570
Weight, pounds.....	3,072,894	2,970,439	2,811,578	2,662,593	2,511,893
Revenue.....	\$20,738,733	\$18,786,027	\$18,034,926	\$16,739,909	\$15,215,938
Priority Mail					
Pieces, number.....	404,653	354,331	329,896	307,815	293,442
Weight, pounds.....	815,895	763,085	704,027	672,446	656,085
Revenue.....	\$ 1,219,898	\$ 1,085,636	\$ 1,010,709	\$ 959,989	\$ 928,436
Express Mail *					
Pieces, number.....	44,120	41,531	40,095	43,939	42,819
Weight, pounds.....	81,789	76,832	125,325	140,002	141,518
Revenue.....	\$ 505,295	\$ 498,733	\$ 490,782	\$ 502,482	\$ 457,656
Mailgram					
Pieces, number.....	19,618	21,900	25,540	31,266	34,329
Revenue.....	\$ 11,832	\$ 13,361	\$ 17,469	\$ 14,906	\$ 12,811
Second-Class					
Pieces, number.....	10,448,439	10,324,309	10,587,904	10,379,515	9,522,476
Weight, pounds.....	4,107,698	4,012,421	3,971,641	3,965,545	3,852,029
Revenue.....	\$ 1,393,425	\$ 1,279,847	\$ 1,222,327	\$ 1,092,927	\$ 1,025,020
Third-Class					
Pieces, number.....	61,970,095	59,733,198	55,048,946	52,170,257	48,248,714
Weight, pounds.....	7,579,329	7,155,038	6,543,988	6,452,647	5,786,583
Revenue.....	\$ 7,130,662	\$ 6,147,551	\$ 5,606,268	\$ 4,886,566	\$ 4,240,832

* Express Mail statistics have been restated to represent Domestic Express Mail service only. Statistics for International Air Mail have been revised to reflect this change.

Classes of Mail	1988	1987	1986	1985	1984
<i>(in thousands of units indicated)</i>					
Fourth-Class					
Pieces, number.....	649,330	615,230	602,006	575,680	599,037
Weight, pounds.....	2,205,450	2,178,673	2,254,271	2,156,461	2,289,263
Revenue.....	\$ 872,793	\$ 822,917	\$ 814,291	\$ 763,003	\$ 773,988
International Surface					
Pieces, number.....	174,144	266,966	315,734	327,449	352,481
Weight, pounds.....	136,928	148,138	153,750	153,644	165,590
Revenue.....	\$ 188,861	\$ 205,896	\$ 220,877	\$ 212,753	\$ 212,862
International Air **					
Pieces, number.....	545,888	510,850	481,993	503,266	543,447
Weight, pounds.....	83,494	67,774	64,408	69,491	70,151
Revenue ***.....	\$ 782,705	\$ 751,256	\$ 713,249	\$ 710,834	\$ 677,919
Penalty					
Pieces, number.....	3,081,089	2,644,744	2,969,799	2,608,045	2,523,178
Weight, pounds.....	444,501	452,841	468,930	469,530	499,673
Revenue.....	\$ 965,296	\$ 844,158	\$ 896,376	\$ 848,896	\$ 788,894
Franked					
Pieces, number.....	798,357	507,019	751,769	682,914	923,955
Weight, pounds.....	19,656	13,875	17,441	14,847	19,744
Revenue.....	\$ 113,365	\$ 63,164	\$ 96,103	\$ 85,529	\$ 111,646
Free for the Blind					
Pieces, number.....	38,529	41,187	35,475	27,533	32,172
Weight, pounds.....	30,757	41,999	36,793	25,375	29,595
Totals					
Pieces, number.....	160,490,868	153,930,574	147,375,805	140,097,956	131,544,620
Weight, pounds.....	18,578,390	17,881,115	17,152,152	16,782,581	16,022,124
Revenue.....	\$ 33,922,865	\$ 30,498,546	\$ 29,123,377	\$ 26,817,794	\$ 24,446,002

** Figures have been revised to include International Express Mail service formerly included with Domestic Express Mail service.

*** Includes transit special handling and miscellaneous revenue.

Special Services	1988	1987	1986	1985	1984
<i>(in thousands of units indicated)</i>					
Registry					
Number of articles (paid and free).....	50,280	52,427	52,348	51,123	54,735
Revenue	\$ 171,728	\$ 159,514	\$ 167,363	\$ 164,038	\$ 162,979
Certified					
Number of pieces.....	164,450	160,602	147,374	130,698	124,112
Revenue	\$ 251,667	\$ 222,973	\$ 202,927	\$ 174,702	\$ 155,998
Insurance					
Number of articles.....	35,130	40,006	39,783	43,372	46,960
Revenue	\$ 48,153	\$ 51,733	\$ 50,344	\$ 51,043	\$ 54,229
Collection-on-Delivery					
Number of articles.....	9,603	10,405	10,383	11,022	11,960
Revenue	\$ 20,679	\$ 19,569	\$ 19,528	\$ 21,304	\$ 23,030
Special Delivery					
Number of articles.....	5,000	8,440	10,232	15,373	19,044
Revenue	\$ 19,217	\$ 25,144	\$ 30,448	\$ 40,496	\$ 40,681
Money Orders					
Number issued.....	144,050	141,977	133,799	117,792	115,550
Revenue fees.....	\$ 141,510	\$ 147,525	\$ 134,647	\$ 125,935	\$ 131,575
Other					
Box rent revenue.....	\$ 295,630	\$ 273,262	\$ 258,582	\$ 229,891	\$ 188,055
Stamped envelope revenue	22,927	18,434	14,743	16,831	13,883
Other revenue, net.....	141,377	111,412	100,132	94,037	97,122
Totals					
Special services revenue.....	\$ 1,112,888	\$ 1,029,566	\$ 978,714	\$ 918,277	\$ 867,552
Mail revenue.....	33,922,865	30,498,546	29,123,377	26,817,794	24,446,002
Operating revenue	<u>\$35,035,753</u>	<u>\$31,528,112</u>	<u>\$30,102,091</u>	<u>\$27,736,071</u>	<u>\$25,313,554</u>

Employees	1988	1987*	1986*	1985*	1984*
Headquarters—L'Enfant Plaza	2,311	2,101	2,000	2,296	2,238
Headquarters—Field Support Units	5,677	5,792	5,552	4,207	4,510
Field career employees					
Regional Offices	437	431	595	3,261	2,788
Inspection Service (field)	4,146	4,278	4,262	4,387	4,528
Postmasters	27,774	27,735	27,352	27,811	28,332
Supervisors	44,170	43,076	40,723	39,034	42,721
Prof. Admin. Tech. Personnel	10,532	10,582	8,717	7,263	2,009
Clerks	296,712	296,360	290,255	278,462	266,034
Nurses	321	325	328	324	238
Mailhandlers	49,937	48,879	48,095	46,467	41,711
City Delivery Carriers	236,160	229,706	224,106	212,667	201,232
Motor Vehicle Operators	7,117	7,031	6,866	6,436	5,995
Rural Delivery Carriers & Substitutes on Vacant Routes	39,095	36,551	35,938	35,206	34,679
Special Delivery Messengers	2,146	2,209	2,295	2,289	2,200
Bldg. & Equip. Maintenance Personnel ...	32,418	31,047	30,155	30,332	29,372
Vehicle Maintenance Personnel	4,828	4,705	4,526	4,365	4,262
Total career employees	763,781	750,808	731,765	704,807	672,849
Non-career employees					
Casuals	25,043	9,621	20,675	9,157	22,221
Non-Bargaining Temporary	272	297	309	362	366
Rural Subs/RCA/RCR/AUX	34,573	29,831	31,808	30,164	6,687
PM Relief/Leave Replacements	9,814	9,243	8,947	8,372	7,917
Offices, Stations and Branches	1988	1987	1986	1985	1984
Number of post offices	29,203	29,319	29,344	29,557	29,750
Number of stations and branches:					
Classified stations and branches	4,957	4,910	4,240	4,224	4,184
Contract stations and branches	4,294	4,087	3,965	3,856	3,744
Community post offices	1,663	1,714	1,721	1,690	1,708
Total	10,914	10,711	9,926	9,770	9,636
Grand total	40,117	40,030	39,270	39,327	39,386

* Figures have been revised to conform with current method of counting career paid employees using the On-Rolls and Paid Employee Statistics data base.

Senior USPS Officers

Anthony M. Frank
Postmaster General

Michael S. Coughlin
Deputy Postmaster General

Edward E. Horgan, Jr.
*Associate Postmaster General,
International*

Kenneth J. Hunter
*Associate Postmaster General,
Systems*

Louis A. Cox
General Counsel

Charles R. Clauson
Chief Postal Inspector

David H. Charters
*Senior Assistant Postmaster General,
Human Resources Group*

Comer S. Coppie
*Senior Assistant Postmaster General,
Finance Group*

Peter K Eichorn
*Senior Assistant Postmaster General,
Marketing & Communications Group*

Mitchell H. Gordon
*Senior Assistant Postmaster General,
Administrative Services Group*

John G. Mulligan
*Senior Assistant Postmaster General,
Operations Support Group*

William A. Campbell, Jr.
*Regional Postmaster General,
Southern Region*

Joseph R. Caraveo
*Regional Postmaster General,
Western Region*

William R. Cummings
*Regional Postmaster General,
Northeast Region*

Jerry K. Lee, Sr.
*Regional Postmaster General,
Central Region*

Johnny F. Thomas
*Regional Postmaster General,
Eastern Region*



Regional Postmasters General left to right: William A. Campbell, Jr., Joseph R. Caraveo, William R. Cummings, Jerry K. Lee, Sr. and Johnny F. Thomas.

Governors of the Postal Service



Left to right seated: Norma Pace; Vice-Chairman of the Board John L. Ryan; Chairman of the Board John N. Griesemer; Susan E. Alvarado; and Crocker Nevin. Standing: Ira D. Hall; Bert H. Mackie; Tirso del Junco, M.D.; and Robert Setrakian. Governor Mackie's appointment became effective December 9, 1988.

Board of Governors

John Griesemer, *Chairman of the Board of Governors*, is President of the Griesemer Stone Company and the General Warehouse Corporation in Springfield, MO. He became a Governor in December 1984 and was reappointed, without a break in service, to a full term expiring December 8, 1995. He was elected Chairman of the Board in January 1987.

John L. Ryan, *Vice Chairman of the Board*, became a Governor in May 1983 for a term expiring December 8, 1989. He retired as Vice President of METPRO Corporation and General Manager of the Dean Pump Division in Indianapolis, IN, in January 1987. He was elected Vice Chairman of the Board in June 1986.

Crocker Nevin, *Chairman of the Audit Committee of the Board*, became a Governor in August 1986 for a term expiring December 8, 1992. He is the Chairman of the Board and Chief Executive Officer of CF&I Steel Corporation. He also served on the Board of Governors from 1971 to 1977.

Susan E. Alvarado, Vice President of E. Bruce Harrison Co., a Washington, DC public relations firm, was appointed in July 1988 to serve on the Board for a term expiring December 8, 1996. Formerly Assistant for Legislative Affairs to Vice President George Bush, she later served as Vice President for the National Association of Broadcasters.

Tirso Del Junco, M.D., a Los Angeles surgeon and entrepreneur, was appointed to the Board in July 1988 for a term expiring December 8, 1991. He founded and served as Chairman of the Board of the Los Angeles National Bank and now serves as a member of the Board of Regents of the University of California.

Ira D. Hall, Assistant Treasurer of the International Business Machines Corporation, was appointed to serve on the Board on December 7, 1987. His term will expire December 8, 1990. Prior to joining IBM, he was Senior Vice President of the investment firm of L.F. Rothschild, Unterberg, Towbin.

Bert H. Mackie, Executive Vice President of the Security National Bank of Enid, OK, was appointed to serve on the Board on December 9, 1988. His term expires December 8, 1997. He is an Oklahoma State Regent for Higher Education, which coordinates Oklahoma's 25 colleges and universities.

Norma Pace, an economist and consultant to several top corporations in the nation, was appointed to serve on the Board in May 1987 for a term expiring December 8, 1994. She is the author of numerous articles for business publications on forecasting and the use of forecasting in business planning.

Robert Setrakian, a San Francisco businessman, was appointed to the Board in December 1985 for a term expiring December 8, 1993. He is President of the William Saroyan Foundation and active in numerous civic endeavors. He previously served as a Commissioner of the Federal Maritime Commission from 1983 to 1985.

Anthony M. Frank was appointed the nation's 69th Postmaster General by the Board on February 2, 1988, taking office March 1, 1988. Prior to joining the Postal Service, he was Chairman of the Board and Chief Executive Officer of First Nationwide Bank, one of the nation's largest consumer banking operations.

Michael S. Coughlin was named Deputy Postmaster General by the Board on January 5, 1987 after holding a series of top-level postal management positions. Now the chief operating officer of the Postal Service, he entered it in 1967 as a management intern.

Also serving on the Board during Fiscal Year 1988 were Ruth O. Peters, whose term expired December 8, 1987, who continued to serve as provided by law until July 1988; J. H. Tyler McConnell, whose term expired December 8, 1988; and Preston R. Tisch, who resigned as Postmaster General in February 1988.

United States Postal Service
475 L'Enfant Plaza West SW
Washington DC 20260-0010



Annual Report of the Postmaster General Fiscal Year 1989

Striving for Excellence:

- Consistent timely service, measured independently.
- Postage rates below inflation.
- Increased employee commitment.

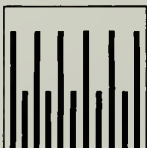


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Consistent Timely Service



Rates Below Inflation



Employee Commitment

In last year's annual report, we featured our three-point agenda on the cover. We were guided by that agenda in Fiscal Year 1989, and will follow it in the years ahead. By staying that course, innovative and dedicated postal people have produced a number of success stories across the nation. The symbols above, which appear throughout this annual report, represent the Postal Service's strategic emphasis as Fiscal Year 1989 ends and the 1990s begin.

Annual Report of the Postmaster General
Financial and Operating Highlights

	Year Ended Sept. 30, 1989	Year Ended Sept. 30, 1988	Year Ended Sept. 30, 1988	Year Ended Sept. 30, 1987	Year Ended Sept. 30, 1986
Pieces of mail (millions)	161,603	160,954*	160,491	153,931	147,376
Percent change	0.4	4.6	4.3	4.4	5.2
(dollars in millions)					
Operating revenue	\$37,979	\$35,036	\$35,036	\$31,528	\$30,102
Percent change	8.4	11.1	11.1	4.7	8.5
Public service appropriation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue forgone appropriation**	\$ 436	\$ 517	\$ 517	\$ 650	\$ 716
Percent change	-15.6	-20.5	-20.5	-9.2	-26.2
Total operating expenses	\$38,371	\$36,119	\$36,119	\$32,520	\$30,717
Percent change	6.2	11.1	11.1	5.9	5.2
Net income (loss)	\$ 61	(\$ 597)	(\$ 597)	(\$ 223)	\$ 305
Fixed assets (net of depreciation) . . .	\$ 8,833	\$ 7,801	\$ 7,801	\$ 6,628	\$ 5,588
Percent change	13.2	17.7	17.7	18.6	10.3
Equity (deficiency)	(\$ 402)	(\$ 460)	(\$ 460)	\$ 138	\$ 362
(in units indicated)					
U.S. resident population January 1					
estimate (in millions)	247.1	244.6	244.6	242.2	239.9
Percent change	1.0	1.0	1.0	0.9	0.9
Pieces of mail per capita	654	658*	656	635	614
Percent change	-0.6	3.6	3.3	3.5	4.2
Operating revenue per capita	\$153.69	\$143.24	\$143.24	\$130.16	\$125.46
Percent change	7.3	10.0	10.0	3.7	7.6
Operating expense per piece of mail . .	23.74¢	22.44¢*	22.51¢	21.13¢	20.84¢
Percent change	5.8	6.2	6.5	1.4	—
Operating revenue per piece of mail . .	23.50¢	21.77¢*	21.83¢	20.48¢	20.43¢
Percent change	7.9	6.3	6.6	0.2	3.2
Net income (loss) per piece of mail . .	0.04¢	(0.37¢)*	(0.37¢)	(0.14¢)	0.21¢
Percent change	—	—	—	—	—
Career employees	763,743	763,781	763,781	750,808	731,765
Percent change	0.0	1.7	1.7	2.6	3.8

* Beginning in Fiscal Year 1989, a new methodology was implemented which reports Penalty and Franked mail within their appropriate classes. Fiscal Year 1988 volume data have been recast to reflect these changes. Volume data for prior years are not comparable.

** Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate in accordance with Congressional Mandate. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

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To the Governors and the American People:

While the Postal Service made progress in Fiscal Year 1989, we fell short of our goals.

We ended Fiscal Year 1989 with a net income of \$61 million, a performance more than \$650 million better than the previous year. This marks the fifth time in the last 10 years that we have recorded a net income.

We handled more than 40 percent of the world's mail volume, and provided a vital link in improving communications among the peoples of the globe. As the fiscal year ended, plans were completed for hosting the Congress of the Universal Postal Union. Com-

pleted in December (Fiscal Year 1990), the UPU Congress was a highly successful event in which the 170 member nations committed to keeping mail competitive and relevant in the future.

In Fiscal Year 1989, the Postal Service processed more than 161 billion pieces of mail, establishing record volume for the 13th consecutive year. We saw an increase in the level of barcoded mail from

seven percent last year to 30 percent. Our total revenue amounted to a record \$38.9 billion, a \$3 billion increase over last year.

Our net income, however, had been projected to be \$562 million. Our volume increased only about 600 million pieces. Our productivity, for most of the year, lagged behind that of the previous year. Our \$501 million shortfall from plan, in fact, would have been much greater if not for aggressive cost control efforts undertaken by our managers and employees. These efforts headed off a potentially serious deficit. A turnaround in total factor productivity in the final quarter — an increase of 0.8 percent — was significant. This improvement was fueled primarily by

restraining workhour growth, which increased labor productivity by 1.1 percent. Clearly, we did a better job in this quarter of adjusting to the conditions of lower-than-expected volume.

As we enter a new fiscal year — and a new decade — restraining increases in our costs and continuing to increase productivity are critical to our performance. With our belts severely tightened, we still face a projected deficit of \$1.6 billion in Fiscal Year 1990. Our customers will be watching us closely because we will be filing with the Postal Rate Commission for consideration of new rates to take effect in 1991, and we also will be seeking to negotiate new labor agreements with our major unions.

Several troubling trends concern us as we move into this difficult period. Mail volume growth is flattening, partly because of the impact of previous rate increases. Workhours, the achievements of our fourth quarter notwithstanding, did not meet our expectations. Sharply rising health benefit costs and assuming the last vestiges of taxpayer support for the Postal Service — “indirect subsidies” arising from annuitant benefits and COLAs — also are adding to our financial challenges.

It is no secret that our customers are concerned about inflation in postal costs. Some customers have begun to think about alternative delivery. They question if we can make good on our service commitments. They wonder if we are too big or too inflexible to respond to their needs at prices they can afford. At least two major tests of alternative delivery networks are underway, and, if successful, these efforts threaten our existing volume.



Postmaster General
Anthony M. Frank



Obtaining the commitment of employees and equipping them with modern automated tools are key strategies for reducing postal costs.

Management is acutely aware of the Postal Service's impact on our business customers' bottom lines. We know that increases in our costs have been outpacing inflation and must be brought under control. We have heard our customers' complaints about rising postal costs. We recognize that without our customers' support and participation, we cannot get where we need to be in the future.

Clearly, the Postal Service must prove that we can provide consistent, quality service at affordable rates. That is a message that we must spread to all levels of the Postal Service.

To succeed now and in the future, we must concentrate on service, costs and higher employee commitment. All three are interdependent — customers want consistent and reliable service, provided at reasonable rates by courteous and caring employees. That is how they define excellence, and that is how we must define it.

Can we achieve excellence? We believe we can by meeting the objectives in our strategic business plan, which stretches through 1995. Those objectives are:

- To meet our goal of consistent timely service, measured independently, and to also increase the level of customer satisfaction with postal services;
- To bring cumulative inflation in postal costs below general inflation, which will help restrain both the frequency and amount of future rate increases; and
- To increase employee commitment to quality service by creating a working environment that fosters bottom-up communication, innovation and participation by everyone.

Only by concentrating on these things can we project our future with a high degree of confidence. Simply put, we know what we need to do, and we know how to do it.

We must renew our "service first" attitude with every letter we deliver, every stamp we sell and every question we answer. "We deliver" cannot just be an advertising slogan, it must be a reality.

We know that opportunity will keep knocking, but it may knock quietly and in unpredictable ways. We must learn to recognize opportunities to increase our revenue and the financial contribution our products make to our overhead. We must recognize automation and barcoding as our best defenses against continually rising costs. And we know that management and labor must work together to squeeze every penny of value we can out of our operating dollars.

In order to achieve these things, we must continue the progress we have made in reducing management/labor contention. By working together to unleash the talent and energy of the nation's largest civilian work force, we can achieve excellence.

The Postal Service has served our nation well for more than 200 years. As we move forward toward a new century, we are committed to make hard choices, to act, to invigorate this proud institution and to guarantee it continues to meet the needs of our customers. Consistent, timely service, rates below inflation and higher employee commitment — meeting these three objectives will demonstrate that public service can be world-class service.



Anthony M. Frank
Postmaster General
of the United States

January 9, 1990

Can we achieve excellence? We believe we can by meeting the objectives in our strategic business plan, which stretches through 1995.



Modern retail space and equipment being tested in two "Post Offices of the Future" in the Washington, DC area are one dimension of the improved customer service that continued in Fiscal Year 1989.



Every working day, the Postal Service raises the American flag over 40,000 post offices, stations and branches serving more than 200,000 city and rural routes. In High Point, NC, a letter carriers' EI/QWL team planned and implemented a "Quarter Back" program in Fiscal Year 1989. If a letter is misdelivered, the carrier pays the customer 25 cents. Since the 1988 Christmas season, these carriers have delivered nearly 10 million pieces of mail and incurred only \$19 in out-of-pocket expenses.



The Postal Service renewed its commitment to reliable, cost-efficient service to its customers in Fiscal Year 1989.

The strategies for Fiscal Year 1990 in this area are simple and straightforward:

- Maintaining service levels despite cost reductions;
- Realigning delivery standards with customer expectations — and then meeting them consistently;
- Implementing external measurement systems for both customer satisfaction and delivery performance; and
- Looking at restructuring the classification schedule to offer customers more options and fewer restrictions.

In Fiscal Year 1989, new technology, cost-conscious management and a closer working relationship with customers contributed to significant changes in the way the Postal Service delivers quality service today and in the future.

Strategy Cuts Overhead, Not Service. The addition of more than 1.5 million delivery points, a growth in mail volume of about 600 million pieces and a 24 percent increase in health benefit premiums in Fiscal Year 1989 raised postal costs, but the Postal Service was vigilant in holding down administrative expenses wherever possible.

To drive down costs, the Postal Service put an ambitious cost-cutting program in place to reduce expenses. One element of this cost control effort was the consolidation of two field divisions and 36 management sectional centers in September 1989. This action eliminated some 1,200 administrative positions and will produce estimated savings of \$35 million annually.

First-Class Mail Delivery Standards to Be Modernized. In September 1989, the Postal Service began a major effort to ascertain customers' delivery expectations for First-Class Mail by asking business and residential mailers to define their needs for timeliness of delivery.

The need to reexamine these standards was confirmed by Fiscal Year 1989 service performance. Overnight stamped First-Class

Mail service performance was 94 percent, one percent less than the previous year. Overnight metered First-Class Mail met standard 92 percent of the time. This was one percent higher than last year. Two-day and three-day service was up slightly, but was still below the 95 percent level.

This move also was prompted by survey results which showed that the Postal Service could enhance customer satisfaction with First-Class Mail delivery by providing more consistent overnight, two-day and three-day delivery in line with customer needs.

The surveys mark the first systematic effort by the Postal Service to assess customer expectations and needs for First-Class Mail delivery, and the first major modification of delivery standards in nearly two decades.

Worksharing Proposals Begin Implementation. In November 1988, the Postal Service/Mail Industry Worksharing Team submitted its final report, and 12 of the Workteam's 36 proposals were completed in Fiscal Year 1989.

The proposals included:

- The first stage of a postage certification system for bulk mailers who document that their systems can presort to specified depths and apply correct postage with an error rate of five percent or less.
- Allowing customers to mix five-digit bar-coded and non-bar-coded mail with ZIP + 4 mailings. This is one of several steps to increase the volume of pre-bar-coded mail.
- Extending computerized Address Change Service to third-class bulk business mailers. The Address Change Service was begun in 1986 so second-class mailers could correct computerized newspaper and magazine address lists more quickly and efficiently. Address Change Service will be extended to First-Class Mail and Fourth Class Mail in Fiscal Year 1990.

In Fiscal Year 1989, new technology, cost-conscious management and a closer working relationship with customers contributed to significant changes in the way the Postal Service delivers quality service today and in the future.



- Giving small volume mailers access to the National Change of Address System via diskette.

- Providing Operation MAIL (Mail Addressing Improvement Link) audits on demand to help customers keep more accurate address lists.

Other innovations included a standard endorsement for ZIP + 4 and non-ZIP + 4 mailings, simplification of postal regulations so customers could produce more pre-barcode mail for automated processing and enhanced programs to reduce undeliverable-as-addressed mail.

Seven of the other proposals will be included in the next general rate case, and the other 17 proposals are scheduled for implementation in 1990.

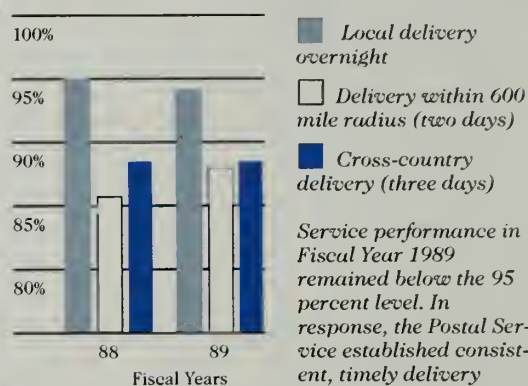
Public Perceptions of Postal Service Remain High. During Fiscal Year 1989, the Postal Service continued its use of both internal and external studies to track consumer attitudes and trends as they relate to postal products and services. Each of the studies reflected positive rebounds in ratings from the lower ratings received in Fiscal Year 1988.

The most recent semi-annual National Tracking Study, conducted in April 1989, indicated that the general public's attitude toward the Postal Service remained very favorable. In the survey, 83 percent of the general public reported overall satisfaction with the postal services they received compared to 82 percent in October 1988.

The Division Attitude Study, first conducted on a semi-annual basis in Fiscal Year 1985, measures areas of service that postal customers have indicated are of greatest concern to them. The five areas are reliability of performance, local post office perceptions, speed of delivery, employee courtesy and lobby lines. Compared to the previous year, consumers' perceptions of the Postal Service for Fiscal Year 1989 improved significantly in all five performance areas.

In external surveys, for the sixth consecutive time since the public's attitude toward 12 Federal departments has been surveyed by the Roper Organization, the public gave

National Service Performance (Stamped First-Class Mail)



Service performance in Fiscal Year 1989 remained below the 95 percent level. In response, the Postal Service established consistent, timely delivery performance, measured independently as one of its strategic goals.

the Postal Service the highest rating (75 percent) in response to an April 1989 survey. This rating was up 13 points from the previous year.

External Service Performance Measurement Systems Being Developed. During Fiscal Year 1989, the Postal Service began development of three additional external service performance measurement systems.

The new Customer Satisfaction Index will measure how satisfied household customers are with the Postal Service. The new system will give customers the opportunity to rate the Postal Service overall and on a variety of individual attributes pertaining to window services, lobby operations, delivery of mail, ease of access to postal facilities and how well the Postal Service handles customers' problems and concerns.



The Postal Service delivered 533 million pieces of mail every business day to more than 116 million addresses in Fiscal Year 1989. This represents a growth of more than 1.5 million over the previous year. Rural deliveries increased 2.9 percent to about 20 million in Fiscal Year 1989. To help service this growing delivery network about 37,000 fuel-efficient Long-Life Vehicles were deployed by the end of Fiscal Year 1989.





Conducted by a private vendor, the Customer Satisfaction Index will help pinpoint customer satisfaction in a three-digit ZIP Code, management sectional center, field division, region or national area. National implementation of this system will begin in the second half of 1990 and will be completed in 1991.

The Postal Service also requested proposals in Fiscal Year 1989 for a system to measure First-Class Mail service from slot-to-slot (from the time a letter is mailed to the time it is delivered to the addressee). This External First-Class Mail Measurement System will be a reporter-based system run by an independent contractor using pieces seeded into postal mailstreams from across the nation. Reporters will relay the date of receipt to the contractor. This system is expected to begin in the final quarter of Fiscal Year 1990.

The Third-Class Mail Analysis System will be a joint effort between the third-class mailing community and the Postal Service. The costs of this system will be shared by the Postal Service and participating mailers who subscribe to the system.

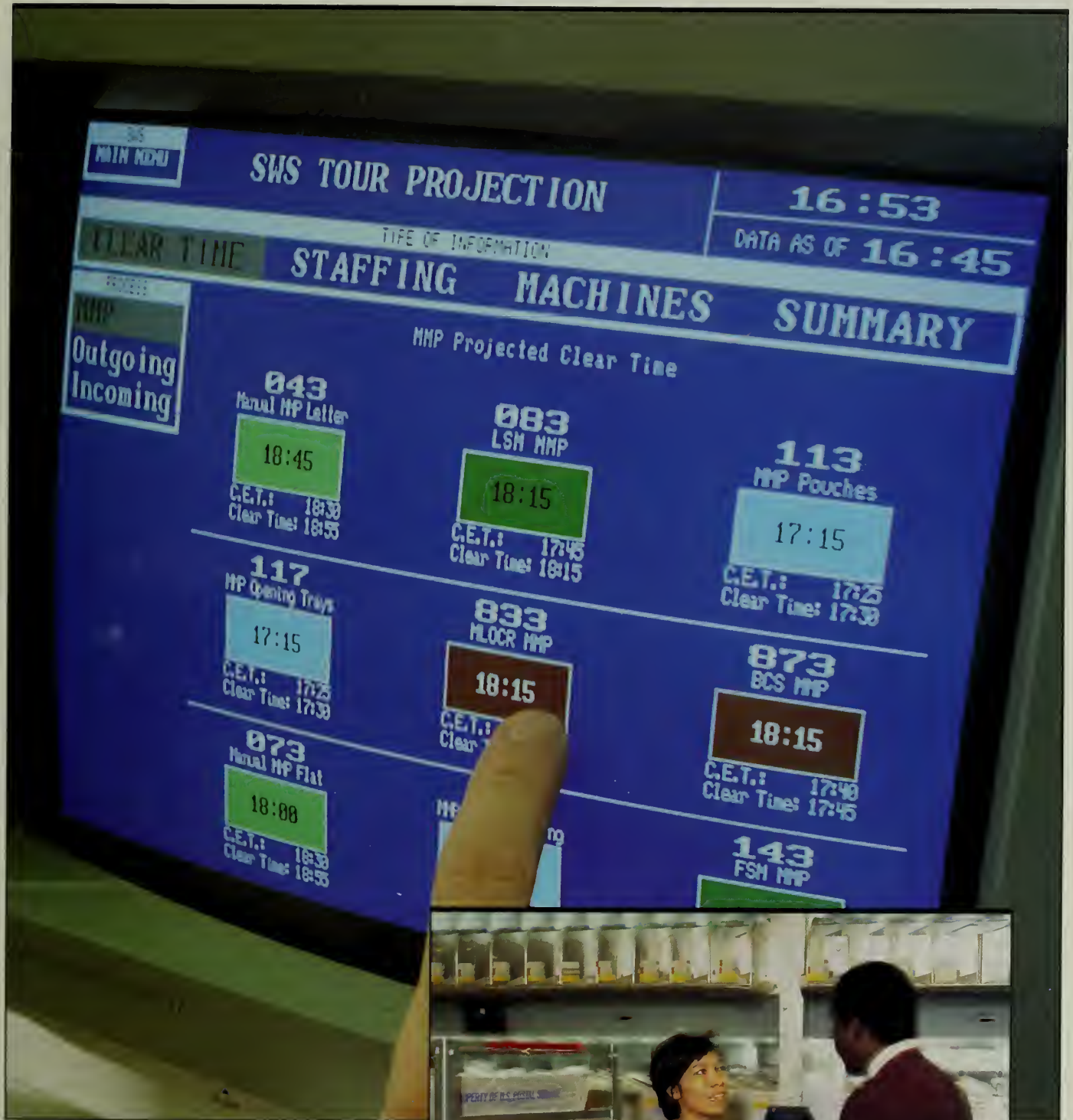
Like the proposed External First-Class Mail Measurement System, this reporter-based system will provide analytical information concerning processing and delivery of third-class mail. A special feature is that participating mailers will be able to obtain service performance information essentially on an as-needed basis for specific mailings.

Supervisors Use Computer Technology for Quantitative Management. Programs for quantitative management and planning tools progressed and expanded in Fiscal Year 1989. An integrated approach to the development of decision support systems at all levels of the Postal Service has led to a number of significant developments which tie to efficient and effective service.

The Supervisor's Workstation, an operational planning and control system for supervisors in mail processing facilities, was developed and field tested in Kansas City, MO and Springfield, MA. This system uses artificial intelligence to summarize conditions on the workroom floor in terms of mail volume and staffing. It will highlight trouble spots and will allow operations managers to determine the status of current mail processing operations, to project mail processing cost and service impacts based on site specific conditions and to evaluate alternative staffing and scheduling.

The Postal Service also developed a new Decision Support Information System that helps delivery supervisors in postal facilities with 20 or more city delivery routes dedicate more time to supervising and less to paperwork. This computer-based data collection and analysis system will process volume, workload and other job-related information and make it available to delivery supervisors. This new system eliminates tedious manual reporting and offers quick turnaround of important information supervisors need to determine overtime, scheduling and other needs. This system will have an impact on costs and timeliness of delivery operations.

Deployment began in September 1989 and was completed by the end of the calendar year.



The Supervisor's Workstation, an expert system for mail processing supervisors, was developed in Fiscal Year 1989. This workstation relies on artificial intelligence to help supervisors adjust to changing mail flows and related staffing. Just as new technology is helping the Postal Service achieve more consistent service, improving labor-management relations also is contributing to this goal.





Postal Inspectors Stop Mail Fraud and Catch Drug Dealers, Child Pornographers and Wall Street Insider Traders. Protecting postal assets, employees at work and the mailing public has been the purview of the Postal Inspection Service for more than two centuries.

Postal Inspectors were on the front line in the war on drugs, making 444 arrests in Fiscal Year 1989 for transporting illegal drugs. Likewise, the Inspection Service has been at the forefront of federal efforts to eradicate the sexual exploitation of children through child pornography.

Neither did the rich and famous avoid the scrutiny of postal inspectors. The latest series of Inspection Service-led insider trading investigations resulted in the arrest of broker Michael Milken. The brokerage firm of Drexel, Burnham, Lambert, Inc. pleaded guilty to mail fraud charges in a related Inspection Service case. (The Postal Service recovered \$78 million as its share of the \$673 million securities fraud settlement.) And hotel magnate Leona Helmsley was convicted of mail fraud due to the investigative efforts of the Postal Inspection Service.

The Postal Inspection Service also conducts audits of postal capital expenditures, operations and programs to determine that planned results are being achieved. The oldest Federal law enforcement agency, the Inspection Service protects the Postal Service and its employees from criminal elements.

The Postal Service buys more than \$4 billion annually in supplies, services and transportation, a figure that ranks as its second-largest expense item after salaries and benefits. Postal contracts for transportation represent a significant portion of these costs. The primary objective of the Inspection Service's contract audit program is to provide independent audit assistance and maintain a system of checks and balances to protect the Postal Service from fraudulent schemes.

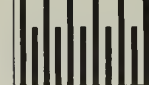


The Postal Service made great strides in its efforts to make purchasing postal products and services easier for customers. The installation of self-service stamp vending machines at the Washington, DC Metro subway line is an example of this "service first" attitude.



To help keep postal rates below inflation, the Postal Service is continuing to automate. An average of three pieces of automated equipment per day were accepted for deployment in Fiscal Year 1989.

Rates Below Inflation



The goal of achieving reasonable rates below inflation is critical to the survival and success of the Postal Service. Individual mailers, who spend about a dollar a week on postage, are generally satisfied with present rates and service. Business mailers, however, have different opinions. Many seek increased consistency of service and are concerned about the implications of the size and frequency of future rate increases.

Already the Postal Service is seeing increased competition for its "bread-and-butter" business — the delivery of hard-copy communications — from private alternative delivery firms, FAX machines and other emerging electronic technology. Clearly, business customers are concerned about the ability of the Postal Service to moderate and control costs and rates. The Postal Service's best answer to these threats is to restrain future rate increases.

Bringing postal costs under control depends on the Postal Service's ability to capture productivity gains. Increasing revenue and the overall contribution of postal products and services while restraining growth in average cost per workhour also are key strategies for restraining rates.

Investing in the Future with Automation. The Postal Service faces the monumental task of retooling without the luxury of shutting down the operation. The Postal Service must automate while coping with growing demands on collection, processing and delivery operations. To ensure that the Postal Service has the capacity and capability to move the mail efficiently, it plans to invest nearly \$13 billion in automation, facilities, vehicles and other equipment over the next five years. About \$5.3 billion is expected to be invested for automation and mechanization.

The Postal Service's Corporate Automation Plan is an outgrowth of a commitment to barcoding and is the principal road map for future automation. Implementing the plan will result in the barcoding of virtually all mail by 1995.

Implementing the Corporate Automation Plan is a major basis for postal productivity improvements, an area that promises big payoffs in the years ahead. The return from investment in automation has the potential to allow the Postal Service to avoid adding about 100,000 workyears by the end of 1995.

To achieve its Corporate Automation Plan, the Postal Service has developed strategies for increasing customer participation, improving addressing and readability, pricing strategically, defining internal equipment needs, and capturing savings from a bar-coded mailstream.

Automation Plan for Business Mailers Introduced. To guide customers in their internal planning for postal automation, the Postal Service introduced its *Automation Plan for Business Mailers* in October 1989.

The purpose of this document is to explain postal plans relevant to various classes and types of mail, and to put key customer events into perspective by explaining how they fit into the Postal Service's Corporate Automation Plan.

By working with and listening to the mailing industry, the Postal Service is trying to communicate to customers its ongoing commitment to automation and barcoding.

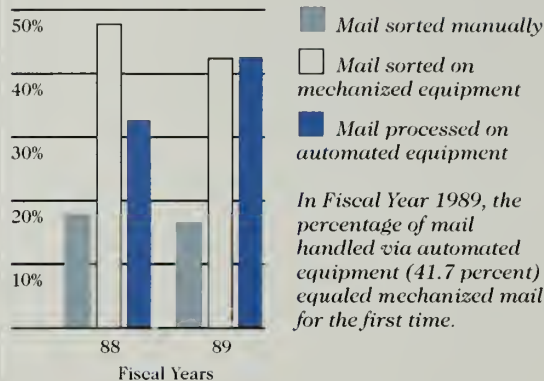
Local Innovation Is Common Thread in Automation Success Stories. Postal managers around the country are meeting the challenge of managing automation with a wide range of innovative approaches.

Each successful site is finding additional ways to make automation work, but there are a few common threads. One key to success is the teamwork that goes into planning for automation implementation by committed managers, postmasters and far-sighted local union officials:

By working with and listening to the mailing industry, the Postal Service is trying to communicate to customers its ongoing commitment to automation and barcoding.



Comparison of Letter Processing Mix



■ The Syracuse (NY) Management Sectional Center threw the switch from single-line to multiline technology in February 1989, cutting its budget by 1.1 percent, absorbing 50 mail processing positions through attrition (saving nearly 40,000 workhours in Fiscal Year 1989), increasing its workload by 4.8 percent and raising its mail processing productivity by 5.5 percent. Employee buy-in and support from the president of the American Postal Workers Union local was pivotal to this success.

■ Dallas Division managers and local APWU officials visited associate offices to recruit volunteers for a temporary automated mail processing facility in Plano, TX. Staffed by some 150 employees working two tours, job-related decisions in Plano are made collectively, most activities function with little or no supervision and the few managers there are considered coaches. Despite serious space and facility shortages caused by capital budget cutbacks, automation has led to the elimination of some 350 positions through attrition. As a result, the Dallas Division used 407,000 less workhours in city operations than in the previous year while at the same time absorbing five percent volume growth.

■ The San Jose Division hasn't hired a career clerk in more than a year, and has reduced more than 150 positions by attrition in the process because of automation. Bar code sorting to delivery sequence will help reduce letter carriers' in-office time from 47 percent to 20 percent of their shifts.

New Technology Will Maximize Automation Savings. Postal automation depends on the use of bar code sorters, multiline optical character readers and remote video encoding. Multiline optical character readers read typewritten addresses and apply ZIP + 4 Codes to letter mail. Remote video encoding is a system being developed which will apply bar codes to handwritten and other non-OCR readable mail. Once letter mail has received a bar code, it can then be processed on bar code sorters which sort the mail (at speeds up to 35,000 pieces per hour) based on the information supplied by the bar code printed on the envelope.

A prototype of technology which will lead to the production of a wide area bar code reader, and allow mailers more flexibility in the placement of the bar code on the face of the envelope, was developed in Fiscal Year 1989. The flexibility of the wide area bar code reader will make it much easier for mailers to bar code their mail. These new wide area bar code readers are slated to begin deployment in 1991.

Phase II of the optical character reader conversion program was completed in Fiscal Year 1989. This conversion included the upgrading of 406 single-line optical character readers to multiline capability. In June 1989, a production contract for 346 of the next generation of multiline optical character readers was awarded. (Installation will begin in September 1990.)

Three companies are competing to develop new remote video encoding systems. Testing of these prototype systems was completed in October 1989 at the Postal Service's Engineering and Development Center in Merrifield, Virginia.

As part of its quality assurance program to improve the reliability and performance of automated equipment, the Postal Service tested and accepted more than 1,000 major pieces of automated equipment (an average of about three per day) worth more than \$300 million in Fiscal Year 1989.



Some 18,000 Long-Life Vehicles worth more than \$200 million also underwent this quality assurance scrutiny. (About 37,000 Long-Life Vehicles were deployed by the end of Fiscal Year 1989.) With their improved maintainability, better fuel efficiency and more than double the payload of previous postal vehicles, Long-Life Vehicles are making significant contributions to improved delivery efficiency.

Increased Revenue Contribution Established as Critical Goal. In addition to productivity gains achieved from automation, the Postal Service is looking at ways to increase revenue contribution to overhead.

To support these efforts, an expedited market study, begun in Fiscal Year 1988, continued during Fiscal Year 1989. The study is designed to measure the size of the one- to three-day expedited delivery market and to identify user profiles, their needs, and their perceptions of the Postal Service's Express Mail and Priority Mail services and their competitors. Another purpose of the study is to determine the demand for a proposed exact two-day service to be provided by the Postal Service. The study will be completed in Fiscal Year 1990.

A study on the preferred methods for purchasing and paying for postage stamps also was completed during 1989. Key findings were that households show a strong interest in retail stores as an alternative to post offices for buying stamps. Among non-households, opportunities exist to promote stamp distribution channels that allow payment by check, delivery to the customer, and the marketing of \$10, \$15, and \$20 booklets of stamps, especially to light-volume mailers.

Other market research activities initiated or completed during Fiscal Year 1989 included: a study of the media needs of advertisers and their perceptions of the third-class mail medium, a profile of sales conference attendees, a study of the possible impact of charging fees for certain address information services, a review of customer perceptions of the Postal Service's International Surface Airlift (ISAL) service and competitive services, and a study to evaluate potential subjects for postage stamps.

First-Class Mail Costs from Western Industrialized Nations



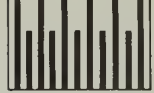
U.S. First-Class Mail rates remained among the world's best postal bargains in Fiscal Year 1989. U.S. postal rates were about half that charged by Japan, Italy and West Germany.

Sales Conference Management Program Aids Customers. The Postal Service Sales Conference Management Program provides business customers with information about new and existing postal services, products, and rates. In addition, these programs provide the Postal Service with an avenue for valuable customer feedback.

During 1989, regional Postal Forums were held in Atlanta, Las Vegas, Chicago, New York, and Pittsburgh. The programs continued the theme of "Partnership for Progress" and were presented to a total of 5,830 customers. This represents a 32.5 percent increase over the 1987 Regional Forum attendance figures.



The Postal Service continued its nighttime network for transportation of Express Mail and Priority Mail in Fiscal Year 1989. A new contract was competitively awarded in July 1989 to Air Train, Inc. (subsequently renamed Emery Worldwide Airline, Inc.), which uses an operations hub in Indianapolis. Since September 1989, on-time performance there has exceeded 99 percent. In October 1989, San Juan, PR, was added to the nighttime service, extending the hub network to 31 major metropolitan markets.



The Mailers' Technical Advisory Committee (MTAC) and the Postal Customer Councils (PCCs) support these efforts, and the Association Conference Program supports the major mailing industry organizations and associations with speakers and panelists for their national annual conferences.

Account Management and Market Information System Tested. An Account Management Information System was successfully pilot tested at nine sites in Fiscal Year 1989. National implementation will begin in early Fiscal Year 1990. Nationwide customer sales information on the Postal Service's large customers will form a national data base which will enable the Postal Service to better manage sales activities and develop marketing strategies.

A business customer data base containing mailing addresses, telephone numbers, standard industrial codes, sales revenue and company executive names was used throughout the year for targeted direct mail campaigns, telemarketing efforts, research, and the establishment of sales territories.

Advertising and Promotion Produce Results. During Fiscal Year 1989, the major advertising campaigns included the promotion of products and services, Express Mail, automation, and philately. A major thrust of Postal Service advertising during the year was the highly successful "We Deliver" theme. This theme was first presented in a 1988 network television products and services promotion. Immediately following the Products and Services campaign was the Express Mail "We Deliver" promotion — the largest single promotion ever for Express Mail. Sales increases were impressive with Express Mail Next Day volume increasing 18.9 percent over 1988.

Promotion of automation started in January 1989 under the umbrella of "Complete Addressing" and using the theme "We Deliver."

Express Mail Service Continues Volume, Revenue Comeback. The \$6 billion domestic overnight delivery market — the market in which Express Mail service operates — is where the Postal Service faces some of its toughest competition. Small and medium-sized companies are the largest market

segment. Individual consumers with an occasional need for expedited delivery also frequently use Express Mail service, as do some Fortune 500 companies with special needs.

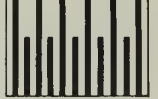
Volume growth increased 17 percent and revenue was up nine percent in Fiscal Year 1989, (volume was nearly triple the growth rate for Fiscal Year 1988). This increase was due to the popularity of the \$8.75 letter rate, reliable overnight and morning delivery networks and the convenience of 26,000 post offices, 16,000 collection boxes and 265,000 delivery and collection employees accepting shipments.

Express Mail International Service Volume Increases Almost 50 Percent. The Postal Service introduced a new half-pound letter rate for Express Mail International Service in April 1989, reducing the price from \$18 to \$10.75 for packages eight ounces or less. In a significant new marketing direction, the new rate was discounted to \$8.75 for the first two months. This new pricing resulted in a nearly 50 percent volume increase and a 17 percent revenue gain.

In Fiscal Year 1989, Costa Rica became the 100th country to join the Express Mail International Service network. This represents the addition of 12 more nations from the previous year. Also enhancing service levels for U.S. Postal Service customers was the addition of more designated locations for the receipt of Express Mail International Service dispatches by postal administrations in 12 nations.



Culminating five years of planning in Fiscal Year 1989, the Postal Service hosted the Universal Postal Union Congress in Washington, DC, for five weeks in November and December 1989. More than 1,000 delegates from 159 nations attended the Congress. WORLD STAMP EXPO '89, the first international stamp exposition ever sponsored by the Postal Service, ran concurrently with the UPU Congress. Sales from WORLD STAMP EXPO '89 and the stamps issued there will recover the Postal Service's costs for hosting the Congress.



The Postal Service signed a Memorandum of Cooperation in November 1989 with UNIPOST Corp. to improve all aspects of performance of international postal services. UNIPOST, which is based in Brussels, is a cooperative, commercial effort of 21 postal administrations, including 16 from European countries, Canada, Australia, New Zealand, Japan and the United States.

By signing the Memorandum, the Postal Service agreed to take an aggressive approach toward gaining sales from major, multinational customers, provide a level of service for international postal services comparable to that provided for domestic services and begin a program of action to improve quality of service among all members.

United States Hosts Universal Postal Union Congress, Signs New Terminal Dues Agreement. Concluding months of continual planning and preparation during Fiscal Year 1989, the 20th Universal Postal Union Congress was hosted by the Postal Service in Washington, DC for five weeks in November and December 1989. More than 1,000 delegates from 159 nations participated in the Congress, which was held in the United States for the first time in nearly a century.

Among the Congress' major accomplishments was a restructuring of terminal dues structure and rates, and the development of significant mail security incentives. The U.S. Postal Service was selected to chair the Executive Council of the Universal Postal Union from 1990-1994.

Assistant Postmaster General Thomas E. Leavey will serve as chairman of the Executive Council, which carries on the work of the Universal Postal Union between Congresses.

Terminal dues — the payments nations make to compensate each other for imbalances in their volumes of incoming and outgoing mail — were restructured to provide for separate rates per kilogram for letters and printed matter in the world's heaviest mail flows. Under this system, terminal dues will be higher for the letter category, reflecting the significantly greater costs of handling these items, and lower for printed matter. This should benefit international mailers by allowing the U.S. Postal Service to moderate future international postage rate increases.

WORLD STAMP EXPO '89, the first international stamp exposition ever sponsored by the U.S. Postal Service, ran concurrently with the UPU Congress. Eleven U.S. stamps and stationery products and 17 foreign stamps were issued during the 14-day exposition. Revenue generated from WORLD STAMP EXPO '89 and the nationwide sales of stamps and products issued there will recover the Postal Service's costs of hosting the UPU Congress.

U.S. Postal Service Becomes Corporate Sponsor of 1992 Olympic Games. In November 1989, the Postal Service announced that it had acquired rights to become a worldwide sponsor of the 1992 Winter and Summer Olympic Games to be held in Albertville, France and Barcelona, Spain.

The Postal Service is sharing the cost of worldwide sponsorship with more than 20 participating postal administrations, each of which will serve as the "Official Expedited and Package Courier" for the 1992 Olympic Games within their own country. (Other worldwide sponsors include firms such as Coca-Cola, Eastman Kodak, VISA and 3M.)

Olympic sponsorship is expected to offer opportunities for the sale of philatelic products with Olympic themes, increased use of postal services (especially expedited and parcel services) and the sale of licensing rights for Olympic-related products bearing the postal logo.

One visible aspect of this sponsorship is that the Postal Service is authorized to place the interlocking Olympic rings on postal aircraft, delivery vehicles, collection boxes and postal facilities.



Stamp Consignment Continues to Grow. Revenue from stamp consignment at some 25,000 retail outlets throughout the country more than doubled in Fiscal Year 1989 to more than \$300 million.

The stamp consignment program provides for the sale of stamps at no more than face value by private retailers, and offers postal customers a convenient, cost-effective alternative to postal window service.

Pilot Testing for FAX Machines in Postal Lobbies Begins. A one-year pilot program to test the use of self-service, credit card-operated public facsimile (FAX) machines in 54 postal lobbies in the Northeast Region began in November 1989. Post offices in the New York, Queens, Long Island, Providence and Boston Divisions will initially serve as pilot FAX sites, but eventually 263 postal lobbies nationwide will participate in the test. If the pilot proves successful, this program could be expanded to more than 8,000 post offices throughout the country.

This pilot program also includes a special "mailbox" retention feature that allows recipients to conveniently retrieve a document at a later time by keying an access code into the machine.

Customers also can use these FAX machines to transmit a document to one of INTELPOST's gateway cities for further transmission to foreign destinations, where the hard copy is then delivered. INTELPOST service offers fast international mail service, providing customers with same-day and next-day delivery of facsimile documents. Thirty-nine nations, including the Soviet Union, belong to the INTELPOST network.

Innovative Marketing, Creative Products Boost Philatelic Contribution. In Fiscal Year 1989, the Postal Service introduced new philatelic products designed to enhance philatelic revenue and interest casual and new stamp collectors. These products included:

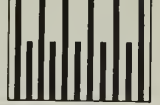
- Silver-plated holiday ornaments crowned with the 1989 Christmas stamps;
- "Stampin', the Lively Board Game of Stamp Acquisition," where players can "wheel-and-deal" to acquire sets of cards bearing recent stamp designs; and

- "The Legends of Baseball Scrapbook and Stamp Album," with tales, photographs, stamps and fact-packed cards of Baseball Hall of Famers Lou Gehrig, Jackie Robinson, Babe Ruth and Roberto Clemente.

The Postal Service also attracted collectors with its first marketing venture with a private corporation. MCA Home Video, producer of the videocassette version of "The Land Before Time," an animated movie about the adventures of friendly dinosaurs, is working to promote the Prehistoric Animal stamps and the video. (The Prehistoric Animal stamps keyed National Stamp Collecting Month in October 1989.)

The first peel-and-stick postage stamps issued by the Postal Service since 1974 began market testing in 15 cities in November 1989. Self-adhesive stamps do not have to be torn from a pane or coil, or licked for affixing to an envelope. In addition, these stamps are designed not to stick together under high humidity conditions and their adhesive produces a superior bond. These stamps are sold at a premium slightly above the First-Class Mail rate.

Net philatelic revenue from 55 stamp and stationery items amounted to \$147 million in Fiscal Year 1989.



Construction of Phase II of the Rincon Center project in San Francisco was completed last year, which included a 14,000 square foot postal facility, twin apartment towers and 250,000 square feet of office and retail space. In another innovative facilities initiative, three photovoltaic demonstration projects were completed in Fiscal Year 1989 in San Juan, PR, El Paso, TX and Rancho Mirage, CA that converted sunlight directly to electricity for heating, cooling and lights. The Postal Service received \$62 million from income generated by the subleasing and out leasing of excess space, sale of excess real estate and the redevelopment of underutilized postal properties in Fiscal Year 1989.



Gaining commitment of employees depends on preparing them for work. During Fiscal Year 1989, a new Technical Training Center in Norman, OK opened and trained more than 18,000 students. To promote professionalism at postal retail counters, major changes were made to training programs for window clerks consisting of 80 hours of classroom simulation and 40 hours on-the-job training.



The Postal Service must make fundamental changes in the way it utilizes its most important resources — its employees. The demands of the 1990s require these changes to be made.

After more than two centuries of highly structured management, the Postal Service is welcoming a gradual change in its corporate culture. Today, increasing numbers of postal employees feel empowered to go the extra mile to serve customers or to initiate cost-effective changes. In Fiscal Year 1989, nearly 50,000 postal employees submitted suggestions for improving operations. Almost 13,000, or 26 percent of those submitted, were accepted and resulted in cost savings of \$5.5 million last year.

Other examples of employees exercising this empowerment abound. During Fiscal Year 1989, advanced-step grievances were reduced, employee involvement was increased, and management by participation was formalized as an objective.

Step 3 Grievances Reduced 53 Percent. Postal management and employee unions worked together to improve the work environment by dramatically reducing grievance activity. This concerted effort led to a 53 percent decline in Step 3 grievances (those not resolved locally and appealed to the regional level). In the Southern Region alone, a 71 percent reduction was achieved. Grievances appealed to the national level dropped 30 percent.

These reductions were not the result of unilateral actions by the Postal Service, but reflected the cooperative efforts of employee unions. The National Association of Letter Carriers saw its grievances drop by 66 percent from the previous year; the American Postal Workers Union's grievance appeal rate was down 52 percent; the National Rural Letter Carriers' Association's appeal rate declined 43 percent; and the Mail Handlers' appeal rate was down 31 percent.

Postal management and employee unions now engage in a variety of alternative resolution processes. The names are different for

each union, but the idea is the same — trying to fix the problem, rather than trying to fix the blame. Instead of pointing fingers, postal managers and employees are beginning to join hands and commit themselves to iron out workplace disagreements at the lowest possible level.

An example of this new labor relations climate is the quarterly meetings held in the Central Region among Regional Postmaster General Jerry K. Lee and his senior staff and their union and management association counterparts. In these meetings, the participants exchange ideas and share performance information. In fact, state and national union and management association officers are invited to participate in all Postal Career Executive Service meetings conducted by the Central Region.

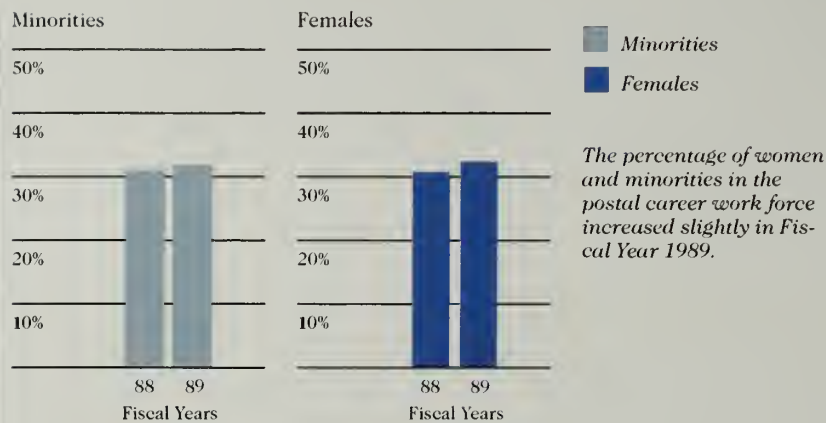
EI/QWL Focuses on Developing Participative Workplace Environment. Fiscal Year 1989 marked the seventh year since the Employee Involvement/Quality of Work Life (EI/QWL) concept was introduced in the Postal Service. EI/QWL efforts are focused on developing a participative workplace environment — one that values the contribution of all employees and instills a sense of responsibility and accountability for the goals of the organization. With continued support from postal management and the three participating unions (National Association of Letter Carriers, National Rural Letter Carriers' Association and the Mail Handlers), more than 6,500 quality circles and workteams addressed a myriad of issues from enhanced customer services to self-managed carrier units.

The National Joint Steering Committees were involved in many substantive organizational issues, such as conducting a cost analysis of rural letter carriers performing mail counts, implementing segmentation and contributing to automation planning. Field EI/QWL quality circles and workteams also made major contributions to the overall effectiveness of the organization, including:

Instead of pointing fingers, postal managers and employees are beginning to join hands and commit themselves to iron out workplace disagreements at the lowest level.



Representation of Minorities and Females in Total Work Force, Fiscal Years 1988-1989



■ At the Heritage Station in Seheneetady, NY, a self-managed workteam adjusted routes, coordinated annual leave usage and measured and reordored mail volume. The results are eye-opening. Overtime has declined 77 percent, sick leave is down 59 percent, deliveries per hour have increased 18 percent and delivery productivity is up 17 percent. (A similar self-management experiment by city carriers in Jackson, MN, bore comparable productivity savings and sick leave cost avoidances.)

■ In High Point, NC, service quality was of concern to one EI/QWL team. A "Quarter Back Program" was recommended and implemented. Letter Carriers on 23 different routes personally pledged to give customers a money back guarantee on delivery — if a letter is misdelivered, the carrier pays the customer 25 cents.

Since the 1988 Christmas season, these High Point carriers have delivered nearly 10 million pieces of mail and incurred only \$19 in out-of-pocket expenses because of misdeliveries. The program has begun to spread to other post offices.

■ At the New Jersey Bulk Mail Center, a quality circle designed a "jam-breaker" platform that permits maintenance personnel to access mail jams on inbound conveyor belts quickly and safely. As a result of this innovation, an annual cost savings of \$50,000 was realized.

Management by Participation Begins. In February 1989, the Postmaster General and the presidents of the National Association of Postal Supervisors, National Association of Postmasters of the United States and the National League of Postmasters formally committed to a new process: Management by Participation.

Management by Participation is a process designed to improve communications, working relationships and trust among supervisors, postmasters and their managers.

Several programs already have begun under Management by Participation aegis. "Peer Review" is a process designed to resolve differences in the workplace over issues like performance evaluations and discipline. During this dispute resolution process, a panel of management representatives and peers convenes to evaluate disputes and render a final decision which is binding on the parties.

Through "Subordinate Feedback," postal managers in the Minneapolis, Providence, Omaha and Hartford Divisions receive direct input on their performance from subordinates.



During Fiscal Year 1989, Postmaster General Anthony M. Frank (right) met his commitment to speak at every management association and employee labor union national convention, including the National Association of Letter Carriers' Centennial Celebration where he appeared with NALC President Vincent Sombrotto.

As part of a Northeast Region-sponsored pilot job sharing project, pairs of management employees in the Albany, Providence and Hartford Divisions voluntarily split one full-time position.

The New Orleans and Phoenix Divisions are pilot testing a four-day, 10 hour per shift workweek for supervisors to afford greater scheduling flexibility during peak volume hours.

Preemployment Drug Testing Study Correlates to Work Performance. The Postal Service is committed to provide a drug-free workplace for its employees. Applicant drug testing will be in place in all field divisions by early 1990.

In Fiscal Year 1989, the Postal Service initiated a drug test study for applicants at 21 sites across the country. More than 5,000 applicants were tested for evidence of illegal drug use. The interim results of the study showed a significant correlation between positive drug tests by applicants and two key

work performance measurements. After one year, the nine percent of the sample who tested positive for drugs were absent 59 percent more than those who tested negatively. Also, those who tested positively for drugs were involuntarily separated at a 47 percent higher rate.

Second Child Care Facility Opened. In July 1989, 24-hour child care became available to employees of the San Francisco Division at the Whitney Young Child Development Center. Housed in a modern facility with five large classrooms, the Center sponsors a wide range of recreational and vocational arts programs supervised by a staff of trained professionals. Currently, 50 children from ages 2 to 12 are enrolled in the program.



Like the Postal Service's first child care test site, the "Little Eagles Child Care Center" in Syracuse, NY, the San Francisco test is being monitored by the Postal Service's National Child Care Task Force.

Training Commitment Remains Strong.

Postal employees received 12.8 million hours of training in Fiscal Year 1989.

The Postal Service revamped its orientation process for training and evaluating new employees, introducing a New Employee Training course. This three-tiered training is spread over new employees' 90-day probationary period. A New Employee Supervisor training course also was developed in Fiscal Year 1989. This eight-hour program emphasizes effective coaching techniques and measurable goal setting to supervisors responsible for evaluating new employees.

A new Technical Training Center in Norman, OK opened last year, and trained 18,400 students for 194,000 workdays on high technology postal systems, facilities, vehicles and equipment. Some 25,000 managers, supervisors and specialists also received management training at the William F. Bolger Management Academy in Potomac, MD in Fiscal Year 1989.

More than 3,500 students participated in six technical courses and Human Resource Information System training sessions transmitted via satellite to local sites in Fiscal Year 1989. A typical two-week teletraining course saved an estimated \$1,100 per student in travel-related costs. Plans are underway to expand this cost-effective training method to remote sites within each of the 73 field divisions.

A new program, *Employee Education Enhances Customer Satisfaction*, designed to educate customer contact employees about effective customer relations and how each individual's performance and behavior impacts the way the Postal Service is viewed, won first place for Consumer Service Training in the 13th Annual Society of Consumer Affairs Professionals Award Program.



Employee commitment was so important to the Postal Service in Fiscal Year 1989 that the discretionary effort exhibited by our employees on a daily basis was a central theme in our "We Deliver" ad campaign.

Annual Report of the Postmaster General
Governors of the Postal Service



*Left to right, seated: John L. Ryan, Norma Pace,
Crocker Nevin, Robert Setrakian and Tirso del Junco, M.D.
Standing: Bert H. Mackie, Ira D. Hall,
Susan E. Alvarado and John N. Griesemer.*

Board of Governors

Robert Setrakian, Chairman of the Board of Governors, is a San Francisco businessman. He was appointed to the Board in December 1985 for a term expiring December 8, 1993. He previously served as a Commissioner of the Federal Maritime Commission from 1983 to 1985.

John L. Ryan, Vice Chairman of the Board, became a Governor in May 1983 for a term that expired December 8, 1989. (As provided by law, he will continue to serve on the Board until December 8, 1990, or until his successor is confirmed by the Senate.) He retired as Vice President of METPRO Corporation and General Manager of the Dean Pump Division in Indianapolis, IN, in January 1987. He was elected Vice Chairman of the Board in June 1986.

Crocker Nevin, Chairman of the Audit Committee of the Board, became a Governor in August 1986 and will serve the remainder of a term expiring December 8, 1992. He previously served on the Board of Governors from 1971 to 1977. He has an extensive background in banking, finance and community service.

Susan E. Alvarado, President, The Alvarado Group, a Washington, DC government relations firm, was appointed in July 1988 to serve on the Board for a term expiring December 8, 1996. Formerly Assistant for Legislative Affairs to Vice President George Bush, she later served as Vice President for Congressional Liaison for the National Association of Broadcasters.

Tirso del Junco, M.D., a Los Angeles surgeon and entrepreneur, was appointed to the Board in July 1988 for a term expiring December 8, 1991. He founded and served as Chairman of the Board of the Los Angeles National Bank and now serves as a member of the Board of Regents of the University of California.

John N. Griesemer is President of the Griesemer Stone Company and General Warehouse Corporation in Springfield, MO. He became a Governor in December 1984 for a term which expired December 1986. He was reappointed, without a break in service, to a full term, expiring December 8, 1995. He was elected Chairman of the Board in January 1987 and served two years as Chairman.

Ira D. Hall, Assistant Treasurer of the International Business Machines Corporation, was appointed to serve on the Board in November 1987. His term will expire December 8, 1990. Prior to joining IBM, he was a Senior Vice President of the New York Investment firm of L.F. Rothschild, Unterberg, Towbin.

Bert H. Mackie, Executive Vice President of the Security National Bank of Enid, OK, was appointed to serve on the Board on December 9, 1988. His term will expire December 8, 1997. He is an ardent supporter of quality education and is a trustee of the Oklahoma Foundation for Excellence.

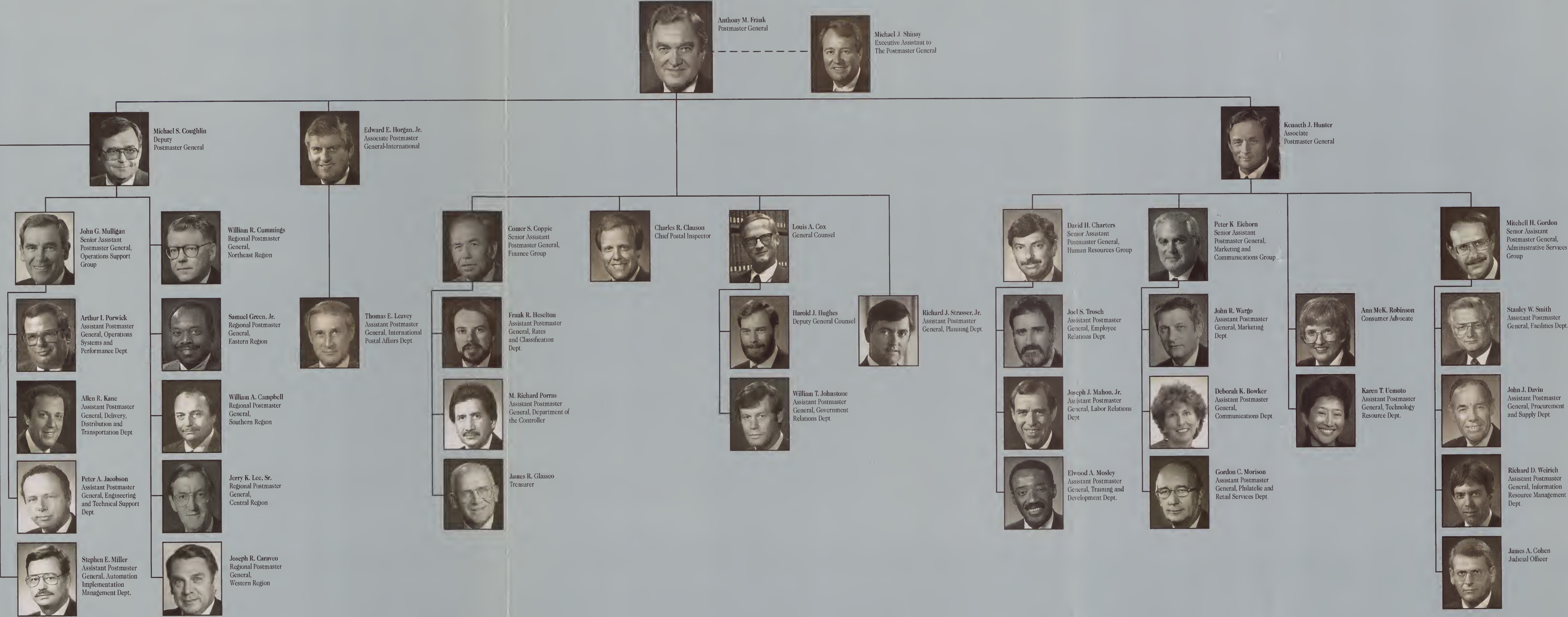
Norma Pace, an economist and consultant to several top corporations in the nation, was appointed to serve on the Board in May 1987 for a term expiring December 8, 1994. Mrs. Pace is the author of numerous articles for business publications on forecasting and the use of forecasting in business planning.

Anthony M. Frank was appointed the nation's 69th Postmaster General by the Board on February 2, 1988, taking office March 1, 1988. Prior to joining the Postal Service, he was Chairman of the Board and Chief Executive Officer of First Nationwide Bank, a wholly-owned subsidiary of Ford Motor Co. and one of the nation's largest consumer banking operations.

Michael S. Coughlin was named Deputy Postmaster General by the Board on January 5, 1987 after holding a series of top-level postal management positions. Now the chief operating officer of the Postal Service, he entered it in 1967 as a management intern.

Officers of the U.S. Postal Service

Officers of the Postal Service are appointed by and serve at the pleasure of the Postmaster General, and are authorized to execute and fulfill the duties of their office according to law. In selecting them, the Postal Service places special trust and confidence in their integrity and ability.



Management Discussion and Analysis

Fiscal Year 1989 continued a period of financial transition for the Postal Service. Cost pressures from a number of extraordinary factors — some of which were beyond the direct control of the Postal Service — resulted in total expenses continuing to increase significantly.

Total revenue was lower than expected, but by less than one percent. Actual expenses were higher than estimated, but also by less than one percent. For the year, revenue was \$256 million under plan while expenses were \$245 million over plan. This resulted in a net income variance from plan of \$501 million. Lower than expected mail volume and lower than planned productivity were primary causes of this variance.

Total revenue for Fiscal Year 1989 amounted to \$38.9 billion, a \$3 billion increase over last year. Total expenses for the year were \$38.9 billion, a \$2.3 billion increase over the previous year. The components of this increase included \$1.9 billion in salaries and benefits, \$362 million in other operating expenses and additional interest expense of \$72 million.

Federal employee health benefit premiums, administered by the Office of Personnel Management, continued to be a serious problem in Fiscal Year 1989. The Postal Service's share of health benefits premium for current employees increased by 24 percent in January 1989. (A 31 percent increase in these premiums was incurred in January 1988 and a 25 percent increase was incurred in January 1987.) As a result, health benefit premiums for current employees have doubled in the past three years and cost the Postal Service almost \$1.8 billion in Fiscal Year 1989. The Postal Service is reevaluating its options relative to health benefits in light of a projected continuation of double-digit increases in federal health benefit premiums for the foreseeable future.

Differences in the method of funding the Federal Employees Retirement System (FERS) and the Civil Service Retirement System (CSRS) are responsible for built-in increases in retirement costs as the percent-

age of employees covered by FERS continues to grow. The higher priced contribution for FERS employees cost the Postal Service some \$900 million more in Fiscal Year 1989 than would have been incurred under the CSRS system. About 289,000, or nearly 40 percent of all career postal employees are now covered by FERS.

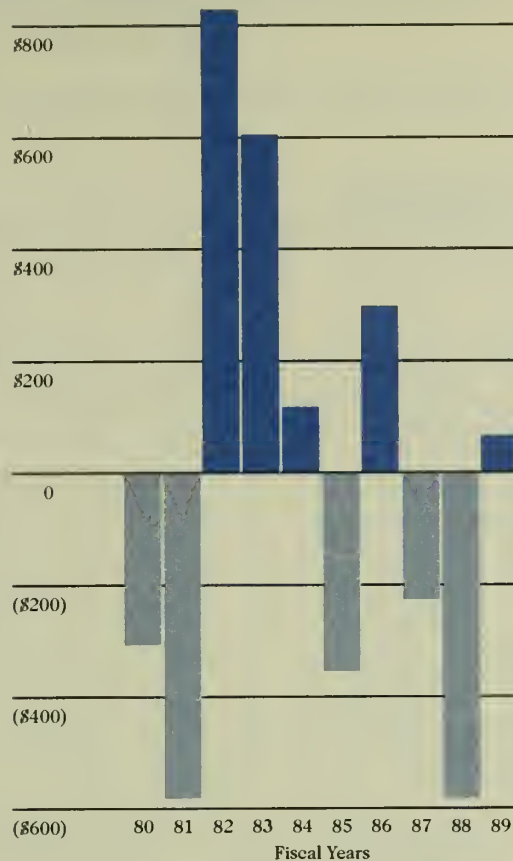
The Omnibus Budget Reconciliation Act of 1987 continued to affect postal finances in Fiscal Year 1989. (These Congressionally mandated payments were extraordinary requirements, made in addition to the Postal Service's regular health and retirement benefits.) The Postal Service was required to make a \$270 million payment to the Federal Employees Health Benefits Fund in Fiscal Year 1989. This was in addition to the payments of \$160 million to the Federal Employees Health Benefits Fund and \$350 million to the Civil Service Retirement System that the Postal Service made the previous year.

When the resources used by the Postal Service do not grow as fast as its workload, Postal Service productivity increases (and vice versa). Growth in workload arises both from growth in mail volume and from growth in the number of households and businesses to which mail must be delivered. In Fiscal Year 1989, the number of delivery points grew 1.6 percent. This increase was in line with previous years, but volume-related workload grew only 0.1 percent. (Volume grew 0.4 percent, but the growth was concentrated in relatively low work content subclasses of mail.) Allowing for the greater importance of volume-related workload, total Postal Service workload grew 0.4 percent, which was significantly less than planned.

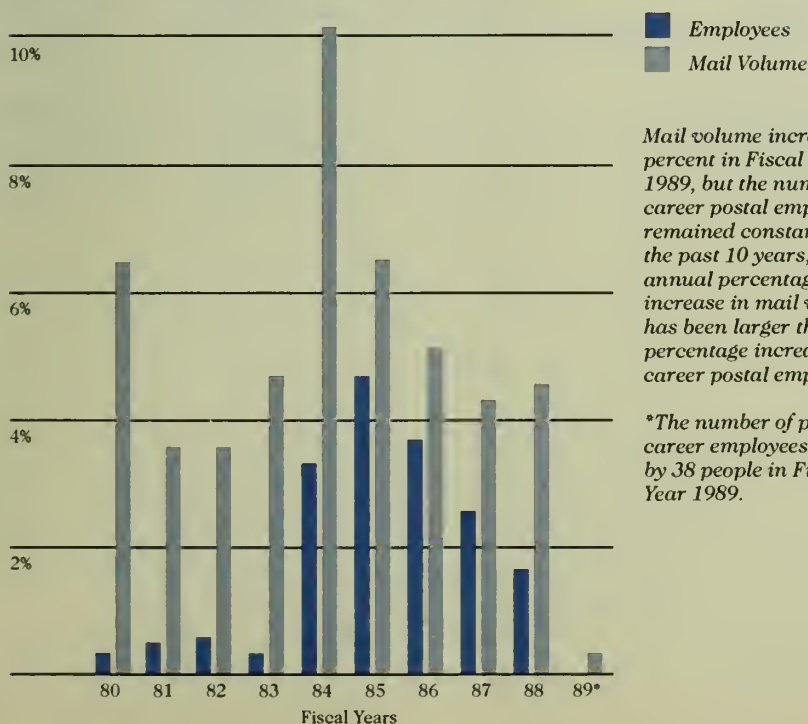
Postal Service resource usage is composed of labor, materials and capital, with labor by far the largest component. In Fiscal Year 1989, resource usage grew 1.2 percent, or 0.8 percent faster than workload. As a result, productivity declined 0.8 percent for the year.

Net Income (Loss) (dollars in millions)

The Postal Service is meeting its legal mandate to break even over time. In the past 10 years, the Postal Service has had five surpluses and five losses. Over that period, its revenue was within two-tenths of one percent of expenses.



Comparison of Annual Percentage Changes for Mail Volume and Postal Career Employees



Mail volume increased 0.4 percent in Fiscal Year 1989, but the number of career postal employees remained constant. Over the past 10 years, the annual percentage increase in mail volume has been larger than the percentage increase for career postal employees.

*The number of postal career employees declined by 38 people in Fiscal Year 1989.

Financial Statements

Balance Sheets

United States Postal Service	Sept. 30, 1989	Sept. 30, 1988
	<i>(dollars in thousands)</i>	
Assets		
Current assets		
Cash and cash equivalents	\$ 1,876,553	\$ 1,162,753
U.S. Government securities at amortized cost, which approximates market	2,827,181	2,784,432
Receivables		
Foreign countries	344,481	326,768
U.S. Government	139,889	226,780
Accrued interest	59,833	29,641
Other	59,528	61,650
	603,731	644,839
Less allowances	27,285	22,869
	576,446	621,970
Supplies, advances and prepayments	168,259	162,667
Total current assets	5,448,439	4,731,822
Other assets—Note 5	16,341	13,418
Property and equipment, at cost—Note 5		
Buildings	6,954,582	6,210,450
Equipment	4,656,713	4,081,902
Land	1,209,555	1,037,934
	12,820,850	11,330,286
Less allowances for depreciation	3,988,248	3,528,994
	8,832,602	7,801,292
Construction in progress	1,302,258	1,526,849
Leasehold improvements, net of amortization	201,144	208,886
	10,336,004	9,537,027
Deferred retirement costs—Note 4	20,971,164	20,389,995
	<u>\$36,771,948</u>	<u>\$34,672,262</u>

See notes to financial statements.

United States Postal Service	Sept. 30, 1989	Sept. 30, 1988
	<i>(dollars in thousands)</i>	
Liabilities and (Net Capital Deficiency)		
Current liabilities		
Compensation and employees' benefits	\$ 2,110,586	\$ 1,959,258
Estimated prepaid postage	1,252,000	1,196,000
Payables and accrued expenses		
Foreign countries	372,006	362,486
U.S. Government	280,886	241,977
Other	204,932	249,775
	857,824	854,238
Prepaid permit mail and box rentals	830,053	786,690
Outstanding postal money orders	544,203	436,183
Current portion of long-term debt	303,200	267,200
Total current liabilities	5,897,866	5,499,569
Long-term debt, less current portion—Note 5	6,173,062	5,612,704
Other liabilities		
Amounts payable for retirement benefits—Note 4	20,359,305	19,740,843
Workers' compensation claims	3,745,000	3,367,000
Employees' accumulated leave	940,581	882,580
Other	57,763	30,000
	25,102,649	24,020,423
Commitments and contingencies—Notes 4, 6 and 7		
(Net capital deficiency)		
Capital contributions of the U.S. Government	3,036,586	3,038,500
Deficit from operations since commencement		
on July 1, 1971	(3,438,215)	(3,498,934)
Total (net capital deficiency)	(401,629)	(460,434)
	<u>\$36,771,948</u>	<u>\$34,672,262</u>

See notes to financial statements.

Annual Report of the Postmaster General
Statements of Operations and Changes In Equity
 (Net Capital Deficiency)

United States Postal Service	Year Ended Sept. 30, 1989	Year Ended Sept. 30, 1988
	<i>(dollars in thousands)</i>	
Operating revenue—Note 2	\$38,415,092	\$35,552,753
Operating expenses		
Compensation and employees' benefits—Notes 3 and 4 . . .	32,368,364	30,478,649
Other	6,002,394	5,640,537
	<u>38,370,758</u>	<u>36,119,186</u>
Income (loss) from operations	44,334	(566,433)
Interest income	504,513	386,016
Interest expense	(488,128)	(416,493)
Net income (loss)	60,719	(596,910)
(Net capital deficiency) equity—beginning of year	(460,434)	138,227
Capital equipment transferred to U.S. Government	(1,914)	(1,751)
(Net capital deficiency)—end of year	<u>(\$ 401,629)</u>	<u>(\$ 460,434)</u>

See notes to financial statements.

Statements of Cash Flows

United States Postal Service

Year Ended
Sept. 30, 1989Year Ended
Sept. 30, 1988

(dollars in thousands)

Cash flows from operating activities:

Net income (loss)	\$ 60,719	(\$ 596,910)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	598,736	510,489
Increase in non-current workers' compensation claims	378,000	249,000
Increase in employees' accumulated leave	58,001	44,083
Changes in assets and liabilities:		
Increase (decrease) in accrued compensation and employees' benefits	151,328	(115,597)
Increase in outstanding postal money orders	108,020	45,220
Increase in estimated prepaid postage	56,000	112,000
Decrease (increase) in receivables	45,524	(41,948)
Increase in prepaid permit mail and box rentals	43,363	108,218
Decrease (increase) in retirement costs, net	37,293	(200,063)
Increase in other liabilities	27,763	10,000
Increase (decrease) in payables and accrued expenses	3,586	(227,404)
Increase in supplies, advances and prepayments	(5,592)	(21,216)
Net cash provided (used) by operating activities	1,562,741	(124,128)

Cash flows from investing activities:

(Purchase) sale of U.S. Government securities, net	(42,749)	18,653
Purchase of property and equipment, net	(1,399,627)	(1,707,505)
Net cash used in investing activities	(1,442,376)	(1,688,852)

Cash flows from financing activities:

Increase in long-term debt	900,000	1,414,000
(Increase) decrease in other assets	(2,923)	7,686
Payments on long-term obligations	(303,642)	(261,919)
Net cash provided by financing activities	593,435	1,159,767
Net increase (decrease) in cash and cash equivalents	713,800	(653,213)
Cash and cash equivalents at beginning of year	1,162,753	1,815,966
Cash and cash equivalents at end of year	<u>\$1,876,553</u>	<u>\$1,162,753</u>

Supplemental disclosures of cash flow information:

Cash paid during the year for interest	\$ 544,888	\$ 451,674
Cash received during the year for interest	<u>\$ 474,321</u>	<u>\$ 409,271</u>

United States Postal Service Notes to Financial Statements

September 30, 1989 and 1988

1. Postal Reorganization and Accounting Policies

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

Cash Equivalents

—Cash equivalents include securities with maturities at purchase of 90 days or less.

Property and Equipment

—Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease period or their useful lives. Repair and maintenance costs are expensed as incurred.

Estimated Prepaid Postage

—Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

Workers' Compensation Claims

—Workers' compensation costs are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends and other factors.

Retirement Benefits

—Amounts payable for retirement benefits reflect the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the Fund) arising from increases in basic pay. Also included in this total is an

unfunded liability arising from the transfer of Civil Service Retirement System employees into the Federal Employees Retirement System (FERS). These liabilities are payable in equal amounts over a 30-year time period. Amounts applicable to operations of future years are charged to deferred retirement costs and are subsequently amortized through operating expenses.

Research and Development Costs

—Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to approximately \$61,000,000 in Fiscal Year 1989 and \$47,000,000 in Fiscal Year 1988.

Retiree Health Benefits

—Under Public Law 99-272, the Postal Service became responsible for paying the employer's share of health benefits for its career employees retiring on or after October 1, 1986. These costs totaled approximately \$100,000,000 in Fiscal Year 1989 and \$53,000,000 in Fiscal Year 1988. These costs are accounted for as incurred.

2. Revenue Forgone

Operating revenue includes reimbursement for revenue forgone. Revenue forgone results from charging lower rates for the mail categories which Congress has determined should be subsidized through tax dollars. Revenue forgone reimbursed to the Postal Service during Fiscal Years 1989 and 1988 amounted to \$436,417,000 and \$517,000,000, respectively.

3. The Omnibus Budget Reconciliation Act of 1987

The Omnibus Budget Reconciliation Act (OBRA) of 1987 required the Postal Service to make additional payments of \$350,000,000 to the Civil Service Retirement and Disability Fund and \$160,000,000 to the Federal Employee Health Benefits Fund during Fiscal Year 1988. For Fiscal

Year 1989, the Postal Service was required to pay an additional \$270,000,000 to the Federal Employee Health Benefits Fund. These amounts are included in expenses for compensation and employee benefits in the Statements of Operations and Changes in Equity (Net Capital Deficiency).

—The OBRA also limited capital investment commitments to \$1,995,000,000 for Fiscal Year 1989, and \$625,000,000 for Fiscal Year 1988, and required the Postal Service to reduce operating expenses by \$270,000,000 and \$160,000,000 in Fiscal Years 1989 and 1988, respectively.

—Additionally, the OBRA required a deposit of \$465,000,000 in an escrow account with the U.S. Treasury by October 31, 1988. The deposit reverted to the Postal Service on October 1, 1989, pursuant to the provisions of the OBRA.

4. Retirement Programs

Description of Plans and Contribution Rates

The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the Civil Service Retirement System (CSRS). CSRS provides a basic annuity and Medicare coverage. —Employees hired between January 1, 1984 and January 1, 1987 were covered by the provisions of the Dual Civil Service Retirement/Social Security System until January 1, 1987. Certain employees with prior government service continue to be covered by such provisions.

—From January 1, 1987, employees hired since January 1, 1984, except as noted above, are subject to the provisions of the Federal Employees Retirement System (FERS) Act of 1986. In addition, employees hired prior to January 1, 1984 were able to elect participation in FERS during certain periods in Fiscal Years 1987 and 1988. FERS is a three-tier retirement system consisting of Social Security, a basic annuity plan and a thrift savings plan.

—The Postal Service is required to contribute a minimum of one percent per annum of the basic pay of FERS employees to the thrift savings plan. Contributions by FERS employees to the thrift savings plan are voluntary and are fully matched by the Postal Service up to 3 percent of basic pay and at a 50 percent rate between 3 percent and 5 percent of basic pay.

—The following table summarizes contribution rates for these retirement plans during Fiscal Years 1989 and 1988. Contributions for Social Security and Medicare are based upon gross Social Security wages. All other contributions are based on a percent of basic pay.

	Postal Service	Employees
CSRS		
<i>Contributions for:</i>		
Retirement and Disability Fund	7.00%	7.00%
Medicare	1.45%	1.45%
Thrift Savings Plan	—	0-5%
Dual CSRS/Social Security		
<i>Contributions for:</i>		
Retirement and Disability Fund	7.00%	0.94%
Social Security	7.51%	7.51%
Thrift Savings Plan	—	0-5%
FERS		
<i>Contributions for:</i>		
Basic Annuity Plan	12.86%	0.94%
Social Security	7.51%	7.51%
Thrift Savings Plan	1-5%	0-10%

—The following table summarizes the number of employees enrolled in each of the retirement plans at the end of Fiscal Years 1989 and 1988.

	1989	1988
CSRS	474,017	503,028
Dual CSRS/Social Security	14,294	13,310
FERS	288,811	262,617

Unfunded Liability

—Unfunded liabilities of the FERS basic annuity plan, as determined by the Office of Personnel Management (OPM), are funded by the Postal Service through supplemental contributions over 30 years with interest. In Fiscal Year 1989, OPM determined the initial supplemental liability under FERS attributable to Postal Service employees at September 30, 1988 to be \$400,000,000. This liability is to be amortized over 30 years at 7 percent interest per annum. The first installment of \$32,235,000 was paid on September 30, 1989, leaving a year-end FERS unfunded liability balance of \$367,765,000.

—Under the Civil Service Retirement System, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the Fund attributable to Postal Service employee-management agreements that authorize increases in basic pay on which benefits payable from the Fund are computed. The estimated increase in the unfunded liability as determined by OPM is paid by the Postal Service in 30 equal annual installments with interest computed at 5 percent per annum. The first payment thereof is due at the end of the fiscal year in which an increase in the basic pay becomes effective.

—The increases in the unfunded liability for retirement benefits under the Civil Service Retirement System in Fiscal Years 1989 and 1988 were \$811,411,000 and \$2,677,343,000, respectively. The 1988 increase includes \$2,219,720,000 relating to the inclusion in basic pay of certain cost-of-living allowances (COLAs) under the provisions of the 1984 and 1987 employee-management agreements. As a result of the 1987 contract negotiations, additional COLA amounts will become part of basic pay in February 1991. Total increases in the annual expense that resulted from increases in basic pay were \$50,270,000 for Fiscal Year 1989 and \$165,871,000 (of which \$137,520,000 related to COLAs) for Fiscal Year 1988.

—The estimated future minimum payments required to fund amounts payable for CSRS and FERS retirement benefits on September 30, 1989, are as follows:

Fiscal Year	Amount
1990	\$ 1,649,747,000
1991	1,649,747,000
1992	1,649,747,000
1993	1,649,747,000
1994	1,649,747,000
Thereafter	27,270,937,000
	<u>35,519,672,000</u>
Less amounts representing interest and the portion classified as a current liability	<u>15,160,367,000</u>
	<u>\$20,359,305,000</u>

—Aggregate retirement expenses for Fiscal Years 1989 and 1988 were \$4,374,000,000 and \$4,133,000,000, respectively, including \$1,649,747,000 and \$1,568,204,000, respectively, attributable to amortization of deferred retirement costs and interest on the CSRS unfunded liability, and \$143,141,000 and \$106,660,000, respectively, for Postal Service contributions to the thrift savings plan. Also included in retirement expenses are special one-time payments to the Fund of \$270,000,000 and \$350,000,000 in Fiscal Years 1989 and 1988, respectively, pursuant to the requirements of the OBRA (See Note 3).

5. Long-Term Debt and Interest Costs

The Postal Reorganization Act authorizes the Postal Service to issue and sell obligations not to exceed \$10,000,000,000 outstanding at any one time. The net increase outstanding in any one year is limited to \$1,500,000,000 for capital improvements and \$500,000,000 for operating expenses. Long-term debt consists of the following:

	September 30	
	1989	1988
6-7/8% Postal Service Bonds, Series A, due February 1, 1997	\$ 250,000,000	\$ 250,000,000
<i>Notes payable to Federal Financing Bank:</i>		
8.075% payable \$32,000,000 each year to May 31, 2000	352,000,000	384,000,000
7.80% payable \$15,000,000 each year to May 31, 2001	180,000,000	195,000,000
10.475% payable \$38,800,000 each year to May 31, 2010	814,800,000	853,600,000
7.591% payable \$50,000,000 each year to May 31, 2011	1,100,000,000	1,150,000,000
8.474% payable \$30,000,000 each year to May 31, 2012	690,000,000	720,000,000
8.908% payable \$35,400,000 each year to May 31, 2012	814,200,000	849,600,000
9.074% payable \$60,000,000 each year to May 31, 2012	1,380,000,000	1,440,000,000
9.081% payable \$36,000,000 each year to May 31, 1996 \$12,000,000 due June 2, 1997	264,000,000	—
8.795% payable \$24,000,000 commencing on May 31, 1997 with 16 payments of \$36,000,000 due each succeeding year ending on May 31, 2013 with an average interest rate of 8.7572%	600,000,000	—
 Mortgage notes payable including interest of 4.75% to 12.5% maturing from Fiscal Years 1990 through 2004 secured by land, buildings and equipment with a carrying amount of \$132,000,000 (aggregate annual installments approximate \$6,000,000)	 31,262,000	 37,704,000
	6,476,262,000	5,879,904,000
Less current portion	303,200,000	267,200,000
	<u>\$6,173,062,000</u>	<u>\$5,612,704,000</u>

—The 6-7/8% Postal Service Bonds, Series A, were issued under a Trust Indenture dated February 1, 1972, and are secured by a first lien on the revenue, income, fees, rents, appropriations and other receipts of the Postal Service; the proceeds of all obligations issued by the Postal Service; and all sinking and improvement funds established pursuant to the Trust Indenture. On July 31 of each year, the Postal Service is required to deposit in a sinking and improvement fund the sum of \$10,000,000 either in cash or reacquired Series A Bonds. However, the Trust Indenture further provides that, at the option of the Postal Service, such sinking fund requirements may be applied to the payment of costs of capital additions or improvements to properties of the Postal Service. Since the commencement of the sinking fund in 1978, the Postal Service has applied \$110,000,000 to the construction of mail facilities. The balance in the sinking fund (\$10,000,000 in 1989 and \$5,890,000 in 1988) is classified with other assets in the accompanying balance sheets. The bonds are redeemable prior to maturity, at the option of the Postal Service, at the principal amount plus accrued interest.

At September 30, 1989, the future minimum rentals for all noncancellable leases approximate the following:

Year	Total
1990	\$ 382,000,000
1991	333,000,000
1992	271,000,000
1993	212,000,000
1994	166,000,000
Thereafter	531,000,000
	<u>\$1,895,000,000</u>

Most of these leases contain renewable options for periods ranging from three to twenty years. Certain noncancellable real estate leases have options to purchase the facilities at prices specified in the leases.

6. Commitments

At September 30, 1989, the estimated cost to complete approved Postal Service capital projects was approximately \$2,201,000,000.

—Total rental expense for the years ended September 30, 1989 and 1988 is summarized as follows:

	1989	1988
Noncancellable real estate leases including related taxes (1989, \$41,400,000; 1988, \$40,000,000)	\$456,500,000	\$433,700,000
Facilities leased from General Services Administration subject to 120-day notice of cancellation	35,900,000	39,700,000
Equipment and other short-term rentals	44,900,000	61,200,000
	<u>\$537,300,000</u>	<u>\$534,600,000</u>

Report of Ernst & Young Independent Auditors

7. Contingencies

Several equal employment opportunity, employee compensation and postal rate class action lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages and suits and claims arising out of postal contracts.

—Several versions of legislative initiatives have also been proposed that would make the Postal Service responsible for cost of living allowances (COLAs) for new postal retirees according to length of time in Postal Service employment. The final form of this legislation has not yet been determined.

—In the opinion of management and General Counsel, adequate provision has been made for amounts which may become due under the suits, claims and proceedings discussed in the preceding paragraphs.

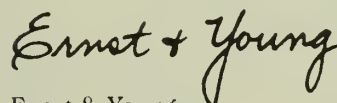
Board of Governors

United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service (Postal Service) at September 30, 1989 and 1988, and the related statements of operations and changes in equity (net capital deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1989 and 1988, and the results of operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script.

Ernst & Young
Washington, DC

November 10, 1989

Annual Report of the Postmaster General
Financial History Summary

	1989	1988	1987	1986	1985
Statement of Operations					
	<i>(dollars in thousands)</i>				
Operating revenue	\$37,978,675	\$35,035,753	\$31,528,112	\$30,102,091	\$27,736,071
Public service appropriation . . .	0	0	0	0	0
Revenue forgone appropriation	436,417	517,000	650,000	715,836	969,620
Total operating revenue	38,415,092	35,552,753	32,178,112	30,817,927	28,705,691
Salaries and benefits	32,368,364	30,478,649	27,228,844	25,575,894	24,349,087
Other expenses	6,002,394	5,640,537	5,290,845	5,140,701	4,858,114
Total operating expenses	38,370,758	36,119,186	32,519,689	30,716,595	29,207,201
Operating income (loss)	44,334	(566,433)	(341,577)	101,332	(501,510)
Other income (loss)	16,385	(30,477)	118,891	203,276	250,030
Net income	\$ 60,719	(\$ 596,910)	(\$ 222,686)	\$ 304,608	(\$ 251,480)
Balance Sheet					
Assets					
Current assets	\$ 5,448,439	\$4,731,822	\$ 5,340,524	\$ 4,658,520	\$ 3,234,741
Property, plant and equipment, deferred retirement costs and other assets	31,323,509	29,940,440	26,746,689	25,155,662	23,825,476
Total assets	\$36,771,948	\$34,672,262	\$32,087,213	\$29,814,182	\$27,060,217
Liabilities					
Current liabilities	\$ 5,897,866	\$ 5,499,569	\$ 5,603,132	\$ 4,846,471	\$ 4,311,893
Other liabilities	25,102,649	24,020,423	21,911,231	21,513,194	20,706,697
Long-term debt—bonds, notes and mortgages	6,173,062	5,612,704	4,434,623	3,092,649	1,983,263
Equity (net capital deficiency)	(401,629)	(460,434)	138,227	361,868	58,364
Total liabilities and equity	\$36,771,948	\$34,672,262	\$32,087,213	\$29,814,182	\$27,060,217
Analysis of Changes in Equity (Net Capital Deficiency)					
Beginning balance	(\$ 460,434)	\$ 138,227	\$ 361,868	\$ 58,364	\$ 310,739
Net income (loss)	60,719	(596,910)	(222,686)	304,608	(251,480)
Capital contributions	(1,914)	(1,751)	(955)	(1,104)	(895)
Ending balance	(\$ 401,629)	(\$ 460,434)	\$ 138,227	\$ 361,868	\$ 58,364

Impact of Revenue Forgone Appropriation* on Revenues Fiscal Year 1989

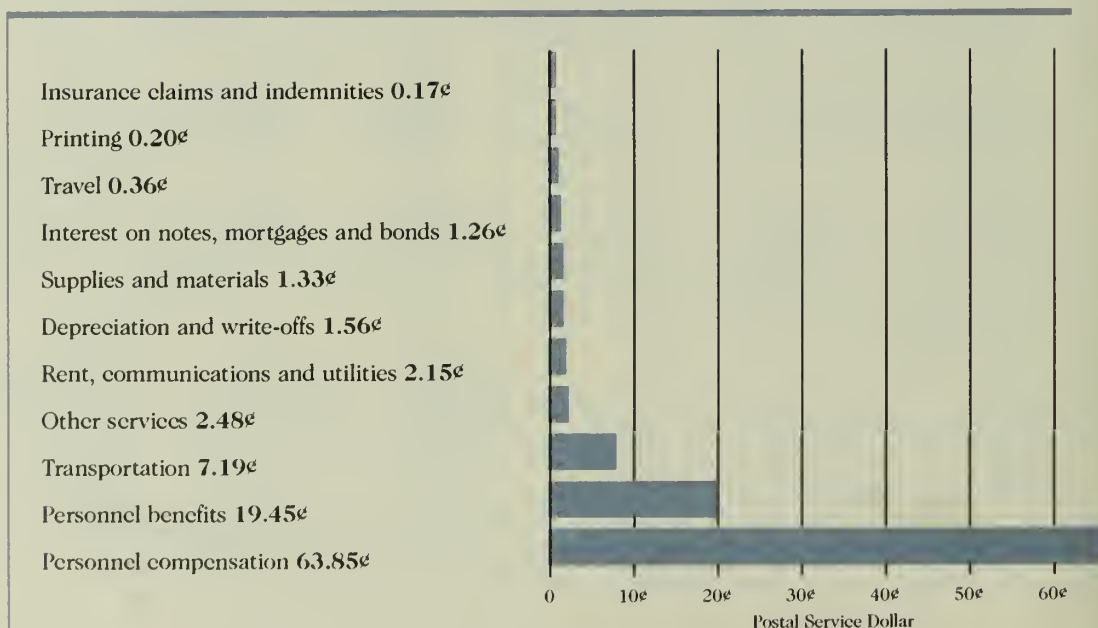
Classes of Service	Total Income of Service	Income from Revenues	Income from Appropriation	Appropriation as a Percentage of Income
(dollars in millions)				
First-Class Mail	\$23,234.4	\$23,234.4	none	none
Priority Mail	1,415.8	1,415.8	none	none
Express Mail	572.0	572.0	none	none
Mailgram	10.2	10.2	none	none
Second-Class Mail				
Within-the-county	\$ 131.8	\$ 100.3	\$ 31.5	23.9%
Outside-the-county				
Nonprofit publications	304.2	241.9	62.3	20.5%
Classroom publications	10.4	7.5	2.9	27.9%
Regular-rate publications	1,158.0	1,157.7	0.3	0.0%
Fees	11.9	11.9	none	none
Total Second-Class Mail	\$ 1,616.3	\$ 1,519.3	\$ 97.0	6.0%
Third-Class Mail				
Single-piece rate	\$ 203.4	\$ 203.4	none	none
Regular bulk rate	6,769.0	6,769.0	none	none
Nonprofit bulk rate	1,263.7	899.4	\$364.3	28.8%
Fees	51.7	51.7	none	none
Total Third-Class Mail	\$ 8,287.8	\$ 7,923.5	\$364.3	4.4%
Fourth-Class Mail				
Parcels (zone rate)	\$ 391.5	\$ 391.5	none	none
Bound printed matter	221.0	221.0	none	none
Special-rate matter	234.9	234.9	none	none
Library materials	62.2	59.7	\$ 2.5	4.0%
Fees	1.3	1.3	none	none
Total Fourth-Class Mail	\$ 910.9	\$ 908.4	\$ 2.5	0.3%
Free mail for the blind and handicapped	25.6	—	\$ 25.6	100.0%
International mail	1,081.2	1,081.2	none	none
Totals	<u>\$37,154.2</u>	<u>\$36,664.8</u>	\$489.4	1.3%
Adjustment for prior years			— 53.0	
Total			<u>\$436.4</u>	

*Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss is given to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

Annual Report of the Postmaster General
Source of Income, Fiscal Year 1989

<i>(dollars in millions)</i>	
Mail Revenue	\$36,664.8
Special services	1,313.9
Government appropriations:	
Revenue forgone appropriations for free and reduced rate mail	436.4
Total operating revenue	38,415.1
Total operating expenses	38,370.8
Income from operations	44.3
Interest income	504.5
Interest expense	(488.1)
Net income	\$ 60.7

Analysis of Expenses, Fiscal Year 1989
(Portion of Postal Service dollar by item)

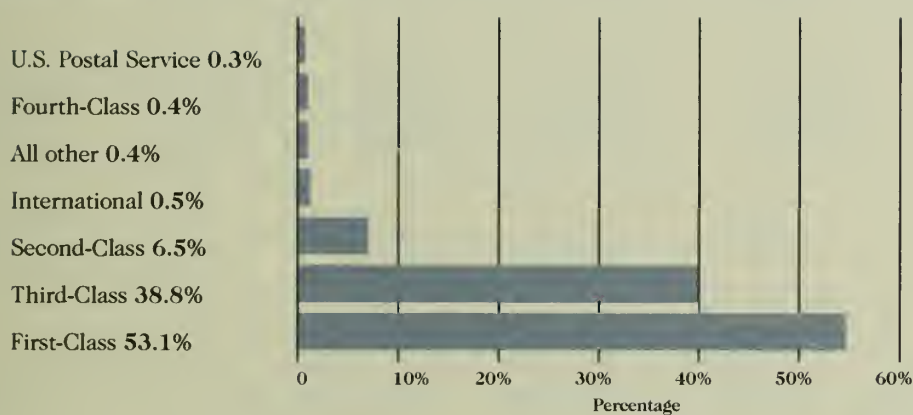


Annual Report of the Postmaster General
Analysis of Mail Volume, Fiscal Year 1989

	1989	1988*	Percent Change
(pieces in billions)			
First-Class	85.86	84.75	1.3
Second-Class	10.52	10.48	0.4
Third-Class	62.78	63.25	-0.7
Fourth-Class	.63	.67	-7.1
U.S. Postal Service	.52	.53	-0.5
International	.72	.73	-0.3
All other	.57	.54	5.0
Total Mail	<u>161.60</u>	<u>160.95</u>	0.4

* Beginning in Fiscal Year 1989, a new methodology was implemented which reports Penalty and Franked mail within their appropriate classes. Fiscal Year 1988 volume data have been recast to reflect these changes.

Composition of Mail, Fiscal Year 1989
 (Percentage of total volume by class)



Operating Statistics

Classes of Mail	1989	1988*	1988	1987	1986
	<i>(in thousands of units indicated)</i>		<i>(in thousands of units indicated)</i>		
First-Class					
Pieces, number	85,855,457	84,749,464	82,316,607	78,869,309	76,186,648
Weight, pounds	3,216,108	3,174,064	3,072,894	2,970,439	2,811,578
Revenue	\$23,234,417	\$21,402,234	\$20,738,733	\$18,786,027	\$18,034,926
Priority Mail					
Pieces, number	470,831	436,735	404,653	354,331	329,896
Weight, pounds	939,318	924,666	815,895	763,085	704,027
Revenue	\$ 1,415,820	\$ 1,329,170	\$ 1,219,898	\$ 1,085,636	\$ 1,010,709
Express Mail					
Pieces, number	53,308	45,628	44,120	41,531	40,095
Weight, pounds	98,810	84,592	81,789	76,832	125,325
Revenue	\$ 571,992	\$ 523,804	\$ 505,295	\$ 498,733	\$ 490,782
Mailgram					
Pieces, number	16,871	19,617	19,618	21,900	25,540
Revenue	\$ 10,193	\$ 11,831	\$ 11,832	\$ 13,361	\$ 17,469
Second-Class					
Pieces, number	10,523,374	10,483,435	10,448,439	10,324,309	10,587,904
Weight, pounds	4,169,919	4,118,140	4,107,698	4,012,421	3,971,641
Revenue	\$ 1,519,267	\$ 1,400,115	\$ 1,393,425	\$ 1,279,847	\$ 1,222,327
Third-Class					
Pieces, number	62,779,116	63,249,821	61,970,095	59,733,198	55,048,946
Weight, pounds	7,478,767	7,651,602	7,579,329	7,155,038	6,543,988
Revenue	\$ 7,923,511	\$ 7,311,334	\$ 7,130,662	\$ 6,147,551	\$ 5,606,268

*Fiscal Year 1988 data have been recast to reflect the new reporting methodology implemented in Fiscal Year 1989 which redistributes Penalty and Franked mail to their appropriate classes. Data for prior years are not comparable.

Operating Statistics

Classes of Mail	1989	1988*	1988	1987	1986
	<i>(in thousands of units indicated)</i>		<i>(in thousands of units indicated)</i>		
Fourth-Class					
Pieces, number	625,932	673,769	649,330	615,230	602,006
Weight, pounds	2,196,129	2,335,516	2,205,450	2,178,673	2,254,271
Revenue	\$ 908,432	\$ 929,435	\$ 872,793	\$ 822,917	\$ 814,291
International Surface					
Pieces, number	165,799	176,352	174,144	266,966	315,734
Weight, pounds	139,443	137,986	136,928	148,138	153,750
Revenue	\$ 216,848	\$ 192,884	\$ 188,861	\$ 205,896	\$ 220,877
International Air					
Pieces, number	558,056	549,874	545,888	510,850	481,993
Weight, pounds	88,465	84,511	83,494	67,774	64,408
Revenue	\$ 864,308	\$ 798,750	\$ 782,705	\$ 751,256	\$ 713,249
Penalty**					
Pieces, number	—	—	3,081,089	2,644,744	2,969,799
Weight, pounds	—	—	444,501	452,841	468,930
Revenue	—	—	\$ 965,296	\$ 844,158	\$ 896,376
Franked**					
Pieces, number	—	—	798,357	507,019	751,769
Weight, pounds	—	—	19,656	13,875	17,441
Revenue	—	—	\$ 113,365	\$ 63,164	\$ 96,103
U.S. Postal Service***					
Pieces, number	527,791	530,402	—	—	—
Weight, pounds	66,323	64,014	—	—	—
Free for the Blind					
Pieces, number	26,728	38,528	38,529	41,187	35,475
Weight, pounds	18,463	30,756	30,757	41,999	36,793
Totals					
Pieces, number	161,603,263	160,953,625	160,490,868	153,930,574	147,375,805
Weight, pounds	18,411,745	18,605,847	18,578,390	17,881,115	17,152,152
Revenue	\$ 36,664,788	\$ 33,899,557	\$ 33,922,865	\$ 30,498,546	\$ 29,123,377

**Beginning in Fiscal Year 1989, Penalty and Franked mail are included in their appropriate classes of mail.

***Beginning in Fiscal Year 1989, the United States Postal Service official mail, formerly included with Penalty mail, is shown separately.

Special Services	1989	1988*	1988	1987	1986
	(in thousands of units indicated)		(in thousands of units indicated)		
Registry					
Number of articles (paid and free)	48,939	50,280	50,280	52,427	52,348
Revenue	\$ 181,270	\$ 184,808	\$ 171,728	\$ 159,514	\$ 167,363
Certified					
Number of pieces (paid and free)	176,540	176,755	164,450	160,602	147,374
Revenue	\$ 284,394	\$ 260,897	\$ 251,667	\$ 222,973	\$ 202,927
Insurance					
Number of articles (paid and free)	34,878	35,151	35,130	40,006	39,783
Revenue	\$ 48,869	\$ 48,175	\$ 48,153	\$ 51,733	\$ 50,344
Collection-on-Delivery					
Number of articles	10,049	9,604	9,603	10,405	10,383
Revenue	\$ 26,993	\$ 20,678	\$ 20,679	\$ 19,569	\$ 19,528
Special Delivery					
Number of articles (paid and free)	2,212	5,311	5,000	8,440	10,232
Revenue	\$ 12,042	\$ 20,196	\$ 19,217	\$ 25,144	\$ 30,448
Money Orders					
Number issued	150,407	144,049	144,050	141,977	133,799
Revenue fees	\$ 147,771	\$ 141,510	\$ 141,510	\$ 147,525	\$ 134,647
Other					
Box rent revenue	\$ 362,318	\$ 295,630	\$ 295,630	\$ 273,262	\$ 258,582
Stamped envelope revenue .	15,883	22,927	22,927	18,434	14,743
Other revenue, net	234,347	141,375	141,377	111,412	100,132
Totals					
Special services revenue . . .	\$ 1,313,887	\$ 1,136,196	\$ 1,112,888	\$ 1,029,566	\$ 978,714
Mail revenue	36,664,788	33,899,557	33,922,865	30,498,546	29,123,377
Operating revenue	<u>\$37,978,675</u>	<u>\$35,035,753</u>	<u>\$35,035,753</u>	<u>\$31,528,112</u>	<u>\$30,102,091</u>

Operating Statistics

Employees	1989	1988	1987	1986	1985
Headquarters—L'Enfant Plaza	2,261	2,311	2,101	2,000	2,296
Headquarters—Field Support Units	5,854	5,677	5,792	5,552	4,207
Inspection Service (field)	4,256	4,146	4,278	4,262	4,387
Field career employees					
Regional Offices	431	437	431	595	3,261
Postmasters	27,178	27,774	27,735	27,352	27,811
Supervisors	44,569	44,170	43,076	40,723	39,034
Prof. Admin. Tech. Personnel	10,475	10,532	10,582	8,717	7,263
Clerks	294,128	296,712	296,360	290,225	278,462
Nurses	309	321	325	328	324
Mailhandlers	50,552	49,937	48,879	48,095	46,467
City Delivery Carriers	236,542	236,160	229,706	224,106	212,667
Motor Vehicle Operators	7,174	7,117	7,031	6,866	6,436
Rural Delivery Carriers & Substitutes on Vacant Routes	40,385	39,095	36,551	35,938	35,206
Special Delivery Messengers	2,107	2,146	2,209	2,295	2,289
Bldg. & Equip. Maintenance Personnel	32,642	32,418	31,047	30,155	30,332
Vehicle Maintenance Personnel	4,880	4,828	4,705	4,526	4,365
Total career employees	763,743	763,781	750,808	731,765	704,807
Non-career employees					
Casuals	18,663	25,043	9,621	20,675	9,157
Non-Bargaining Temporary	343	272	297	309	362
Rural Subs/RCA/RCR/AUX	34,055	34,573	29,831	31,808	30,164
PM Relief/Leave Replacements	9,922	9,814	9,243	8,947	8,372
Offices, Stations and Branches	1989	1988	1987	1986	1985
Number of post offices	29,083	29,203	29,319	29,344	29,557
Number of stations and branches:					
Classified stations and branches	4,958	4,957	4,910	4,240	4,224
Contract stations and branches	4,297	4,294	4,087	3,965	3,856
Community post offices	1,693	1,663	1,714	1,721	1,690
Total	10,948	10,914	10,711	9,926	9,770
Grand total	40,031	40,117	40,030	39,270	39,327

*Front Cover photograph © Tom Walker, Allstock.
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United States Postal Service
475 L'Enfant Plaza West SW
Washington DC 20260-0010

ANNUAL REPORT OF THE POSTMASTER GENERAL
FISCAL YEAR 1990

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"America is writing again.
When America needed us most, we delivered."

— Anthony M. Frank

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Above, the Postal Service encouraged increased letter writing by the nation's youth with its "Wee Deliver" program, and also began its "Stamp Out Illiteracy" program in Fiscal Year 1990.

FRONT COVER:

The photo on the front cover shows the importance of mail from home to American military personnel stationed 8,000 miles from home as part of Operation Desert Shield.

BACK COVER:

Fiscal Year 1990 was a year in which the Postal Service made significant progress toward its strategic goals. Highlights of Fiscal Year 1990 are listed on the back cover.

FINANCIAL AND OPERATING HIGHLIGHTS

	Year Ended Sept. 30, 1990	Year Ended Sept. 30, 1989	Year Ended Sept. 30, 1988	Year Ended Sept. 30, 1987	Year Ended Sept. 30, 1986
Pieces of mail (millions)	166,301	161,603	160,954**	153,931	147,376
Percent change	2.9	0.4	4.6	4.4	5.2
(DOLLARS IN MILLIONS)					
Revenue from operations	\$39,201	\$37,979	\$35,036	\$31,528	\$30,102
Percent change	3.2	8.4	11.1	4.7	8.5
Public service appropriation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue forgone appropriation*	\$ 453	\$ 436	\$ 517	\$ 650	\$ 716
Percent change	3.9	-15.6	-20.5	-9.2	-26.2
Total operating expenses	\$40,490	\$38,371	\$36,119	\$32,520	\$30,717
Percent change	5.5	6.2	11.1	5.9	5.2
Net (loss) income	(\$ 874)	\$ 61	(\$ 597)	(\$ 223)	\$ 305
Fixed assets (net of depreciation)	\$ 9,421	\$ 8,833	\$ 7,801	\$ 6,628	\$ 5,588
Percent change	6.7	13.2	17.7	18.6	10.3
(Deficiency) equity	(\$ 1,278)	(\$ 402)	(\$ 460)	\$ 138	\$ 362
(IN UNITS INDICATED)					
U.S. resident population January 1					
estimate (in millions)	249.6	247.1	244.6	242.2	239.9
Percent change	1.0	1.0	1.0	0.9	0.9
Pieces of mail per capita	666	654	658**	635	614
Percent change	1.8	-0.6	3.6	3.5	4.2
Operating revenue per capita	\$ 157.05	\$ 153.69	\$ 143.24	\$ 130.16	\$ 125.46
Percent change	2.2	7.3	10.0	3.7	7.6
Operating expense per piece of mail	24.35¢	23.74¢	22.44¢**	21.13¢	20.84¢
Percent change	2.6	5.8	6.2	1.4	—
Operating revenue per piece of mail	23.57¢	23.50¢	21.77¢**	20.48¢	20.43¢
Percent change	0.3	7.9	6.3	0.2	3.2
Net (loss) income per piece of mail	(0.53¢)	0.04¢	(0.37¢)**	(0.14¢)	0.21¢
Percent change	—	—	—	—	—
Career employees***	760,668	777,715	779,083	765,338	744,929
Percent change	(2.2)	(0.2)	1.8	2.7	3.6

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate in accordance with Congressional statute. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

** Beginning in Fiscal Year 1988, volume data was recast to report Penalty and Franked mail within their classes. Volume data for prior years are not comparable.

*** Complement data have been revised to conform with current method of counting career on-rolls employees using the On-Rolls and Paid Employees statistics data base.



Employees in the Poughkeepsie, NY, Management Sectional Center made a voluntary personal pledge — a sworn statement of support and commitment called “Pledge 95” — to the goal of having all mail barcoded by 1995. Those taking the pledge received a lapel pin commemorating their commitment.

TO THE GOVERNORS AND THE AMERICAN PEOPLE:

In many ways, this annual report for Fiscal Year 1990 is about achievement. During the past 12 months, the Postal Service has made significant progress toward its strategic goals — most notably:

- By keeping increases in its costs well below the rate of general inflation in the economy;

- By beating the tough total factor productivity targets established in the budget for the fiscal year, and — in doing so — exceeding by 10 times our average annual total factor productivity since 1971;

- By significantly reducing the amount of our fiscal year deficit, which was projected to be \$1.6 billion *if* everything went right and we hit all of our cost, revenue and productivity goals for the fiscal year.

And we accomplished all these things with 30,000 fewer employees than during our peak employment period of May 1989.

A review of Fiscal Year 1990 will provoke a mixture of satisfaction in our performance and

continuing concern about the future vitality of this nation's postal system. We hit or exceeded many major targets, yes; but much remains to be done to secure the level of excellent service the American people desire and demand from their Postal Service.

We can look with a sense of genuine accomplishment at our financial results, having slashed the projected deficit by \$716 million to a loss of \$874 million. We can look to our productivity performance with confidence that automation is working. We can look at operating about 2.6 percentage points below inflation with great pride.

We also can look with satisfaction at the growth in mail volume, from about 162 billion pieces in Fiscal Year 1989 to some 166 billion pieces in Fiscal Year 1990.

We also can be satisfied that we have established the platform for improved service performance through the adjustment of our First-Class Mail delivery standards and the establishment of three new external



*Postmaster General
Anthony M. Frank*

“During the past
12 months, the
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strategic goals.”

measurement systems, one for First-Class Mail performance, one for overall customer satisfaction and one for third-class mail performance.

As we recount these accomplishments, however, we cannot ignore that our overall performance for the roughly three years of the present rate cycle was not enough to stem the implementation of higher rates early in 1991. Nor can we ignore that inflation in our costs during this rate cycle outpaced inflation in the general economy. We must do better than inflation once our new rates are effective — and that is what our six-year strategic plan challenges us to do.

We also must do a better job in all areas of service, including timely and consistent delivery performance and the courtesy and professionalism we extend to our customers.

Several developments that occurred after the end of the fiscal year — or that are occurring now — also have tremendous bearing on whether the solid momentum we established toward achieving our plan can be continued.

The first of these developments was the Omnibus Budget Reconciliation Act of 1990, which set forth specific requirements to meet federal deficit reduction targets for the next five fiscal years. Since the Postal Service is “off budget,” the normal assumption would be that these matters would not affect our fortunes directly. These, however, are not normal times.

This law presents the Postal Service with the requirement to pay up to \$4.7 billion in new costs over the next five years to fund the health care benefits and cost-of-living adjustments for postal employees who retired from service between 1971 and 1986. These costs are likely to shorten the next rate cycle and will put upward pressure on future rates. They also represent a significant incursion into our ability to keep future rate increases below the rate of inflation for our planning period, even if we operate below that inflation rate.

A second development affecting our future performance is the arbitration of labor contracts.

On November 20, 1990, the Postal Service and our four largest employee unions failed to reach agreement on a new collective bargaining pact.

Under the Postal Reorganization Act of 1970, the parties can request an arbitration board that will provide a full and fair hearing on the issues in conflict and make a binding decision within 45 days of its appointment. This is the course we are following.

We sought in collective bargaining more flexibility and restraint in our total labor resources costs — which we felt was a fair deal for our customers and our employees, in that precise order.

A third development of importance was the return of our rate case from the independent Postal Rate Commission.

The Rate Commission's recommended decision, in many ways, validates the progress we have been making. It endorses our plans for future automation. The proposed rates also acknowledge our recent gains in efficiency and productivity and the value of customer participation in barcoding.

The Rate Commission also recommended significant shifts in the percentage of increase, especially between First-Class and third-class. We are concerned about the resulting negative impact on third-class volume in light of current market conditions.

As we move forward in Fiscal Year 1991, we are both hopeful and watchful.

We expect volume to continue to grow in the future, but are concerned that its rate of growth has slowed and will probably be dampened significantly through 1992. We are very encouraged with the results of our automation program, but we also see a need to continue its progress to meet the tough challenge of increasing productivity from the high base established in Fiscal Year 1990. We recognize that one source of this continued improvement must be the discretionary effort of our employees. Therefore, we need to improve our working environment.

We also will be looking at the perceptions of our service performance resulting from our new external measurement systems. These new measures will identify weaknesses in our service network, and those weaknesses will command our attention. Of concern to

RATE CASE UPDATE

On January 22, 1991, the Postal Governors allowed under protest the rate increase as recommended by the Postal Rate Commission, including a rise in the cost of a First-Class stamp from 25 cents to 29 cents.

Most of the the new rates will be effective on February 3, 1991.

The Governors returned the case to the Postal Rate Commission with a request for additional information.

"We are concerned that the Commission's calculations of volume are incorrect," said Chairman Norma Pace. "If the Commission's volume estimates are incorrect, the recommended rates will not meet the Postal Service's revenue requirement for the test year of 1992."

**“Fiscal Year
1991 must be a
year of balance,
in which
concerns with
budget controls
and service
performance
receive equal
weight.”**

us as we begin these measurements is the fact that overall service performance in Fiscal Year 1990 did not equal that of the previous year.

Our internal measurements, reflected by our Origin-Destination Information System (ODIS), fell below Fiscal Year 1989 levels in most categories of mail, although we achieved record on-time performance for Express Mail service.

And our first quarterly independent, external measurement of First-Class Mail confirmed our need to improve delivery performance.

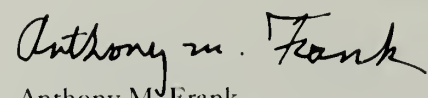
This leads us to conclude that Fiscal Year 1991 must be a year of balance, in which concerns with budget controls and service performance receive equal weight. Where this leads is to a figurative bottom line — that Fiscal Year 1990 was a qualified success for the Postal Service, and was a year that points toward further challenge but better effectiveness in the near future.

Nothing in this evaluation leads me to believe that our imperatives have changed from the manner in which we expressed them a year ago in the pages of last year's annual report:

- To meet our goals of consistent, timely service, measured independently, and to increase the level of customer satisfaction with postal services,
- To bring cumulative inflation in postal costs below general inflation, which will help to restrain both the frequency and amount of future rate increases,
- To increase employee commitment to quality service by creating a working environment that fosters bottom-up communication, innovation and participation by everyone.

Meeting these goals remains a demanding challenge, but meeting these goals remains our primary means to demonstrate to the American people that the U.S. Postal Service provides world-class service.

As the largest civilian employer, and also the most visible part of “The Government” to most people, we can do no less than pursue and achieve excellence in service, rates and employee commitment. Fiscal Year 1990 was a significant milestone on the path to these goals.

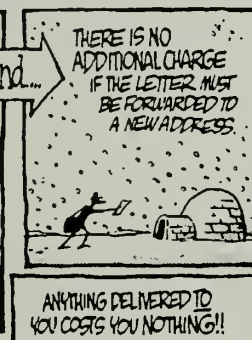
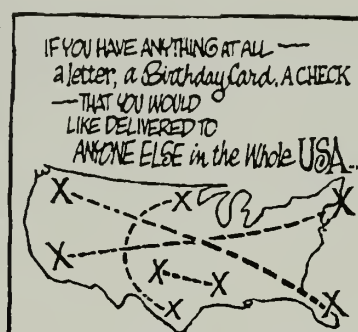
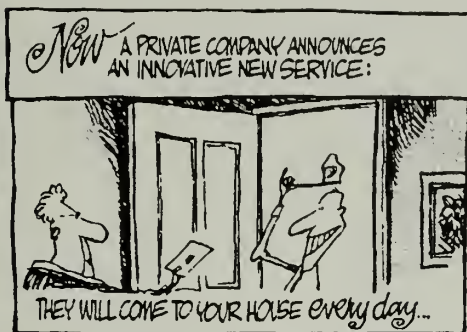


Anthony M. Frank
Postmaster General
of the United States

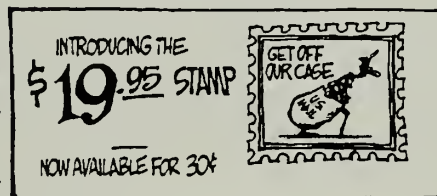
January 11, 1991

JIM BERGMAN

**THERE IS
NO POSTAL
SERVICE.
NEVER HAS BEEN.**



How much would YOU
pay for this INNOVATIVE
New SERVICE?



From the Cincinnati Enquirer, March 1990; Reprinted with special permission of King Features Syndicate, Inc.

To explain the proposed rate increases to the American people, postal officers visited 58 cities throughout the nation in March 1990. Speaking primarily to business audiences and major mailers, and through one-on-one media interviews, the results were better understanding of the reasons why the Postal Service was seeking a rate increase and how mailers could take advantage of the proposed automation-compatible, shape-based rates. Jim Bergman, cartoonist for the Cincinnati Enquirer, penned this statement — an excellent example of the increased public awareness of the value of postage.



The Eagle Network, an overnight air system for transportation of Express and Priority Mail, achieved a 98.9 percent on-time performance standard during the fiscal year. An average of 380,000 pounds of mail — including 125,000 pounds of Express Mail — traveled on the network in each overnight period. Above, airplanes gathered at the Indianapolis hub at 1 a.m. prepare for departure to the 32 cities on the network.

MANAGEMENT DISCUSSION

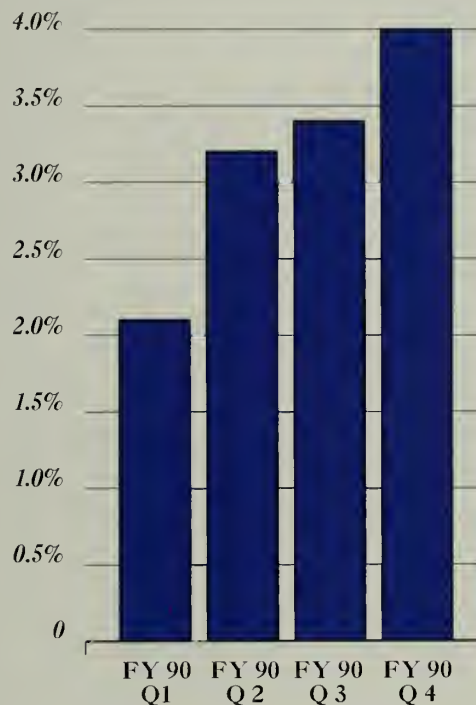
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iscal Year 1990 was a year of qualified success for the Postal Service. Many of its goals were exceeded; some of its targets were missed. The fiscal year was the first in the Postal Service's six-year strategic plan for achieving quality service, reasonable rates and higher employee commitment. Progress was made toward each of these three objectives, as is noted throughout this annual report.

The most significant developments during the fiscal year were reducing a projected record deficit in the third year of the present rate cycle by about half, improving total factor productivity in excess of 3 percent for the year, and advancing ongoing efforts to automate mail processing operations. Progress also was noted in expanding the reach and convenience of postal products and services and toward human resource goals.

The most significant shortfall for the year was in service performance. Internal measures of delivery performance for First-Class Mail were lower in Fiscal Year 1990 than in the previous

FY 1990 TOTAL FACTOR PRODUCTIVITY
(PERCENTAGE INCREASE OVER
THE SAME PERIOD LAST YEAR)



Total factor productivity increased in each quarter of Fiscal Year 1990, resulting in savings of more than \$700 million better than plan. The Postal Service has recorded five consecutive quarters of positive total factor productivity, dating back to Fiscal Year 1989.

fiscal year. The first quarterly results of the new External First-Class Measurement System indicated that eight of 10 letters committed for overnight service were delivered on-time — good, but not excellent, results. One notable exception to delivery trends was Express Mail service, which established a record for on-time delivery.



During Fiscal Year 1990, the Postal Service processed 51 billion pieces of mail using automated equipment like the multiline optical character reader above. The productivity rate of this equipment is more than 10 times higher than manual processing. More than 2,000 optical character readers and bar code sorters were in service by the end of Fiscal Year 1990, and about the same amount is scheduled for deployment in Fiscal Year 1991.

FINANCIAL RESULTS AND PRODUCTIVITY INCREASES

Financial performance figures for the fiscal year point out the difficulty of operating the nation's largest civilian government enterprise as a businesslike public service. Total revenue for the fiscal year was almost \$40.1 billion, against expenses of more than \$40.9 billion for a net loss of \$874 million. This deficit,

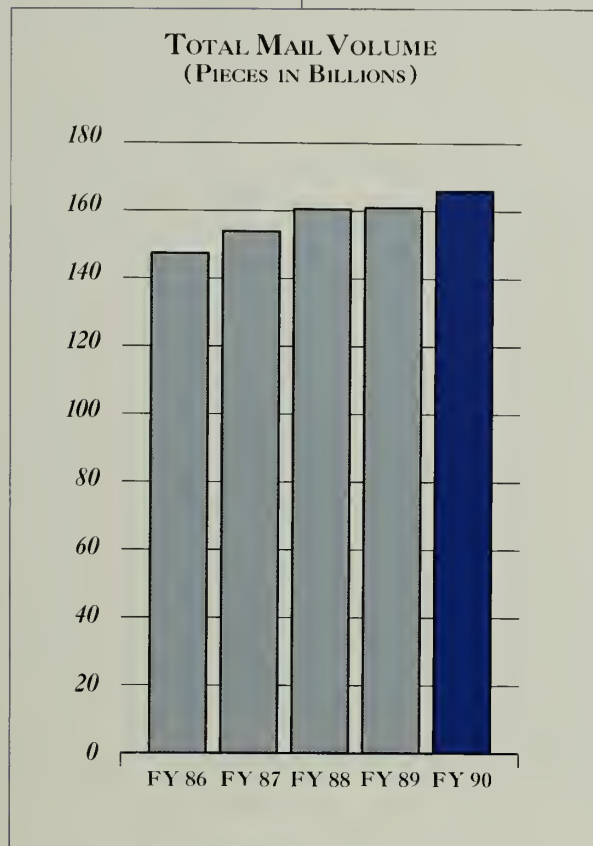
normal for the final year of a rate cycle, was 2.2 percent of operating revenue. The deficit was \$716 million lower than expected for Fiscal Year 1990.

Total mail volume for the year was 166 billion pieces, an increase of nearly five billion pieces over the previous fiscal year. This represents approximately 40 percent of the world's mail volume. Fiscal Year 1990 was the 14th consecutive year in which a new record for total mail volume was established.

Most of the increase was noted in First-Class Mail, which grew by 4 percent over the previous fiscal year. Third-class mail volume — the second-largest segment of the mail — increased by 1.5 percent, recovering from

a slight decline in the previous fiscal year. Second-class mail also grew by 1.5 percent, and fourth-class mail increased by 5.9 percent.

The total volume figure was 2.9 percent higher than in Fiscal Year 1989.



Mail volume increased by nearly five billion pieces in Fiscal Year 1990, the 14th consecutive year in which mail volume set a record.

“The 3.1 percent growth in workload resulted from the 2.9 percent increase in total volume and a 1.5 million increase in delivery points, now totaling 117 million.”

Numerous factors contributed to the general improvement in the operating deficit for the fiscal year over the projected loss of \$1.6 billion. The 3.1 percent overall improvement in total factor productivity produced savings equivalent to more than \$700 million better than anticipated. Total factor productivity measures the Postal Service's combined effectiveness in the use of labor, materials and capital resources. Labor usage is by far the largest of these components. The use of labor resources in Fiscal Year 1990 was 0.2 percent better than plan.

The 3.1 percent growth in workload resulted from the 2.9 percent increase in total volume and a 1.5 million increase in delivery points, now totaling 117 million. Return on capital investments in automation, new vehicles and facilities also contributed to the improved financial picture for the fiscal year.

Growth in expenses during the fiscal year included health benefits for employees (up 15 percent over the previous fiscal year), and \$216 million in costs arising from the increasing number of employees now covered by the Federal Employees Retirement System. This pension program, which requires a larger pre-funded contribution than the older Civil Service Retirement System, now covers 39 percent of all employees, as compared with 37 percent in the prior year.

PROGRESS TOWARD QUALITY SERVICE

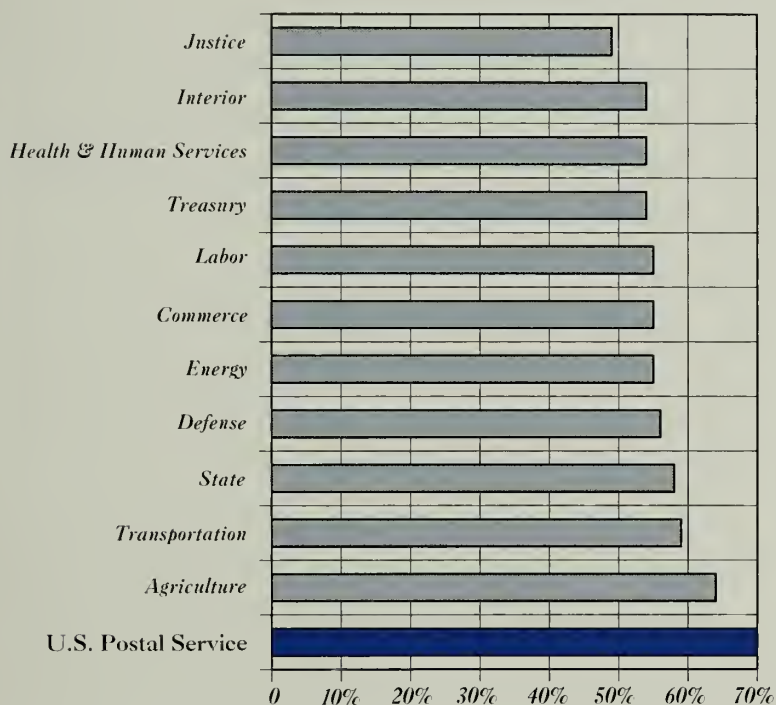
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he Postal Service's objective for quality service recognizes customer satisfaction as the cornerstone of its franchise with the American people. Meeting this objective is a unique challenge. The customers of the Postal Service are extremely diverse, ranging from the individual citizen who considers the mail a

government-provided "birthright" to the large corporate or government mailers who spend tens of millions of dollars on postage and consider the Postal Service a supplier or vendor. In both of these cases — and all in between them — customer satisfaction is a value judgment based upon perceptions of service quality, convenience, price and utility of the mail.

During Fiscal Year 1990, the Postal Service

**PUBLIC SATISFACTION WITH FEDERAL AGENCIES
APRIL 1990 ROPER POLL**



The Postal Service received the highest rating among 12 federal agencies in the April 1990 Roper Poll. It was the seventh consecutive time that the Postal Service was ranked first in this poll.

continued internal tracking of consumer attitudes and trends as they relate to postal products and services. While some ratings showed a slight downward trend from the previous year — reflecting the historical negative reaction to a request to increase rates — customers' attitudes toward the Postal Service remained favorable.

The April 1990 National Tracking Study showed that overall favorability toward the Postal Service is near its all-time high. And, for the seventh straight time, the Roper Organization reported that the public gave the Postal Service the highest rating when evaluating 12 federal departments.



Net revenues from the philatelic program exceeded \$152 million in Fiscal Year 1990 and represented an almost 500 percent return on investment. As Fiscal Year 1990 ended, the Postal Service issued the "Creatures of the Sea" folder above, which featured four Marine Mammal stamps. These stamps were jointly issued by the Soviet Union and the United States.

Service quality has many dimensions, and its meaning will vary in line with the needs and expectations of each customer. Service quality must include consistent performance against published delivery standards. It must mean convenient access to post offices and the services they provide. It must mean secure and damage-free carriage of the mail. It must mean clear and simple rules and regulations. It must mean prompt, courteous service. It must mean delivery at the same time every day and early in the business day. And, most basic of all, service quality must mean that products and services match the needs of the customer.

The dimensions of quality service improvement undertaken by the Postal Service in Fiscal Year 1990, therefore, were many and varied — from large undertakings such as the establishment of quantitative external measures of service performance to small ones like ending each customer transaction with a smile and a thank you.

The physical dimensions of improving the service network in Fiscal Year 1990 were noteworthy. During the fiscal year, the Postal Service opened 128 new postal retail and mail processing facilities throughout the country.

To further expand convenient access to postal products, the Postal Service entered into contracts for 110 contract postal units and 2,361 stamp consignment outlets — ranging from department stores to grocery stores to gift and card shops — to sell stamps and other services in Fiscal Year 1990. To date, there are more than 25,000 stamp consignment outlets nationwide.

The Postal Service also deployed 6,000 pieces of new vending equipment — an increasing number of these state-of-the-art machines in non-post office locations to increase their convenience and reach to customers — extending the network of post offices, branches and stations and vending machines to some 75,000 locations.

Within post offices, expansion of the computerized Integrated Retail Terminal program continued, with some 58,000 of these units deployed nationwide.

“Most basic of all, service quality must mean that products and services match the needs of the customer.”

“The popular lobby director program . . . was extended and is now used in about 375 of the larger post offices throughout the country.”

Integrated Retail Terminals — computers that contain rate and other mailing information — are one key to shortening counter transaction time and, in turn, customer waiting time.

The popular lobby director program, in which a uniformed postal employee greets customers and assists them with routine information, forms and other aspects of a normal lobby transaction, was extended and is now used in about 375 of the larger post offices throughout the country.

A new concept, the Postal Business Center, also evolved during the fiscal year. These new centers, being established in an increasing number of larger post offices, are designed and staffed to provide local businesses and other customers with information and advice about effective mailing practices. The centers are evolving into units that contact customers through telemarketing and direct mail and promote transition to automation-compatible mail, as well as use of all postal services.

In one of the most outstanding service efforts of the fiscal year, the Postal Service and the armed forces established special networks to keep mail flowing to and from troops assigned to Operation Just Cause and Operation Desert Shield.

The value of mail to American military personnel stationed in the Persian Gulf was the subject of a *Newsweek Magazine* cover story, in which one officer said, “The mail is more valuable than gold — literally.”

From August through December, the Postal Service processed for delivery 30 million pounds of mail to the military personnel deployed in Saudi Arabia during Operation Desert Shield.

These ongoing efforts are extraordinary in their size and complexity. About 100 Army Post Offices and Fleet Post Offices — many of which offer complete postal delivery and retail services — are being utilized.

The Secretary of Defense recognized the contributions of the Postal Service during Operation Just Cause, which involved moving the mail to the 35,000 military personnel in Panama. The Postal Service was commended for its untiring support of deployed military personnel during this operation.



Expansion of the computerized Integrated Retail Terminal program continued within post offices, with some 58,000 of these units deployed nationwide in Fiscal Year 1990. Above, the combination of modern equipment and friendly, courteous professionalism reflect two dimensions of customer service.



The Postal Service provides universal service at uniform prices to the American people. Above, the Postal Service delivers mail by mule train five times each week to the Grand Canyon's Havasupai Indians.

PROGRESS TOWARD SERVICE STRATEGIES

T

he Postal Service's six-year strategic plan includes four strategies related to quality service and increasing customer satisfaction:

- The first strategy is maintaining quality service while achieving cost reductions during the near term.

Progress was made toward maintaining service

levels, but it was in this area that the Postal Service's greatest shortfall occurred in Fiscal Year 1990. As measured by internal systems, service in the winter months slipped — partly because of unusually harsh weather conditions in many parts of the country. Although service levels were equal to or better than the previous year's performance by the latter part of Fiscal Year 1990, the earlier lag caused overall service numbers for the fiscal year to fall below those for Fiscal Year 1989 in some categories.

- The second strategy is aligning mail delivery standards more closely with customer needs and meeting these standards with a higher level of consistency.

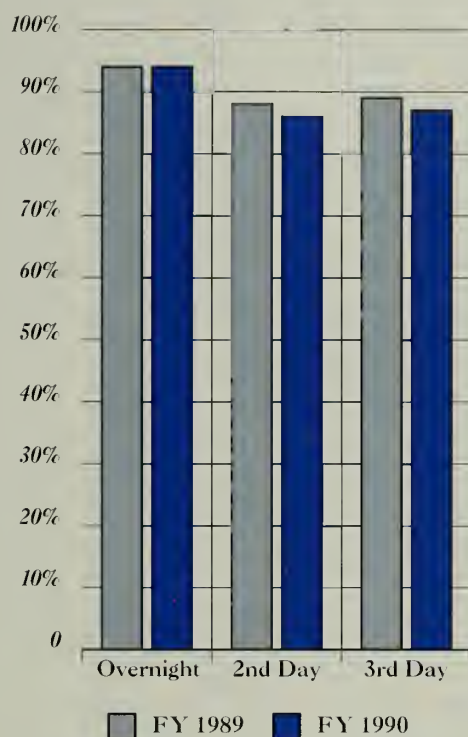
Delivery standards for overnight, second-day and third-day committed First-Class Mail were adjusted after

getting input from thousands of major customers.

These standards, most of which had not been revised for two decades, came in response to market research indicating that consistency of delivery is critical to customers. The adjustments affected about 12 percent of First-Class Mail volume.

- The third strategy is implementing external measurement of customer satisfaction and deposit-to-delivery performance.

DELIVERY PERFORMANCE
(PERCENTAGE OF FIRST-CLASS MAIL
DELIVERED ON-TIME)



In Fiscal Year 1990, service performance as measured by the Postal Service's Origin-Destination Information System (ODIS) matched the previous year's 94 percent on-time record for overnight First-Class Mail, but dipped slightly for second- and third-day delivery.

External measurement of customer satisfaction and deposit-to-delivery performance moved from concept to reality. The award of a contract to Price Waterhouse, which submitted its first quarterly findings to the Postal Service — measured during Quarter 4 of Fiscal Year 1990, but released in November — is one example.

These measurements indicated that, on average, the Postal Service is meeting its delivery service performance targets about eight of 10 times — to which the Postmaster General assigned a grade on service of a “low B.”

Two additional measurement systems of note also were developed during the fiscal year. A Customer Satisfaction Index — which will measure overall customer perceptions of the Postal Service and provide diagnostic detail to guide corrective actions where deficiencies are noted — was developed with the Opinion Research Corporation. This independent firm will be surveying three-quarters of a million customers annually and issuing quarterly reports of overall satisfaction beginning in Fiscal Year 1991.

Finally, administration of the Third-Class Mail Analysis System — a measurement system involving the Postal Service and subscribing mailers — was awarded to National Data Corporation in Fiscal Year 1990. As it is implemented in Fiscal Year 1991, it will assist participating mailers and the Postal Service in identifying and correcting the root causes of service difficulties for bulk business mail.

■ The final strategy is expanding customer options by reducing content-based restrictions and the complexities of the mail classification system, and developing market-oriented mail classes based on the service provided, the degree of mailer preparation, and the cost characteristics of the type of mail.

A comprehensive study of the Postal Service's current products, regulations and pricing structure, and their comparative alignment with the needs of mailers was begun. Among its major focuses are regulatory barriers preventing customers from participating in automated mail processing, the possible need for a wider range of guaranteed delivery windows and possible new product offerings.

These areas of study reflect postal customers' interest in speed and consistency of service, compatibility with an automated mail processing system, and changes in the customer's technology and ability to do some degree of advance preparation of the mail (such as barcoding, presorting, drop-shipping and other forms of customer worksharing). The analysis is expected to help shape the Postal Service's approach to future service offerings to assure that it offers high value to its customers as measured by utility of products, variety of price options and the scope of access to products and services.

PROGRESS TOWARD REASONABLE RATES

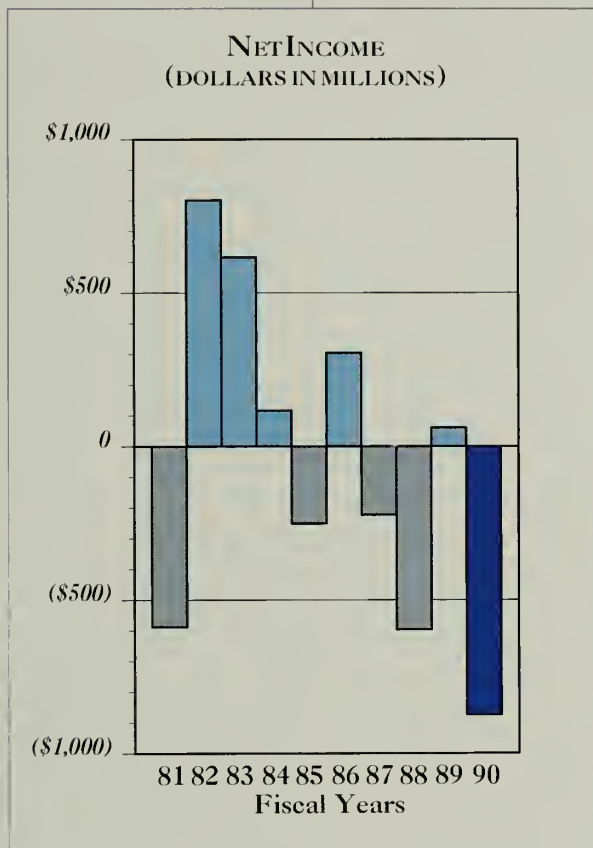
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he Postal Service's objective of reasonable rates focuses on bringing cumulative inflation in postal costs below inflation in the economy during the strategic planning period, which will help to restrain the frequency and amount of future rate increases. The plan recognizes that when increases in postage outstrip

inflation in the general economy, volume growth will be reduced. This was most recently demonstrated during Fiscal Year 1989, when total volume grew less than 1 percent and third-class mail volume declined.

To meet this goal, the Postal Service must first offset the increased responsibility under the Federal Employee Retirement System, which added \$216 million to Fiscal Year 1990 costs alone, and the cost-of-living adjustments and health care benefits of all employees who retired between 1971 and 1986, newly assigned to the Postal Service under the Omnibus Budget Reconciliation Act of 1990. The 1990 OBRA new costs will be up to \$4.7 billion between 1991 and 1995.

The Postal Service must restrain its costs relative to general inflation between Fiscal Year 1990 and Fiscal Year 1995 to meet its strategic plan. Operating *more than* two percentage points below inflation in Fiscal Year 1990 is an excellent start.



By law, the Postal Service seeks to break even over time. For the past 10 years, the Postal Service has had five surpluses and five deficits, and operated within one quarter of 1 percent of breakeven.



Above, as part of its Olympic sponsorship efforts, the Postal Service served as corporate sponsor for the speedskating competition at the 10-day U. S. Olympic Festival in Minneapolis/St. Paul in July 1990. The Olympic sponsorship supports corporate goals for revenue generation and higher employee commitment.

PROGRESS TOWARD COST STRATEGIES

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he strategic plan sets three strategies to restrain costs and rates:

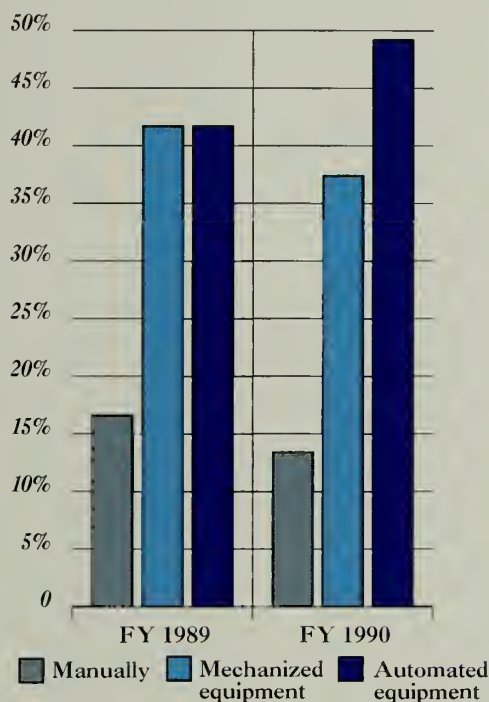
- First, increases in total factor productivity to directly offset resource price increases.

Productivity increased more than 3 percent in Fiscal Year 1990, spurred by the Corporate Automation Plan,

an integrated effort to produce a fully barcoded mail processing system by 1995. The goal for letter mail is to have 40 percent of those bar codes being applied by customers or their agents, 40 percent by the Postal Service's optical character readers and 20 percent by a new technology — the Remote Barcoding System.

During Fiscal Year 1990, significant progress was made toward this plan — progress that included the deployment of additional equipment. More than 2,000 optical character readers and bar code sorters are now in service, with the same amount scheduled for deployment or modification in Fiscal Year 1991. The mail processed on automated equipment in Fiscal Year 1990 represents 49 percent of letter mail

**COMPARISON OF LETTER PROCESSING MIX
(PERCENTAGE OF ALL LETTER MAIL)**



In Fiscal Year 1990, the percentage of letter mail handled via automated equipment increased to 49 percent. A further indication of the impact of postal automation was that 65 percent of all originating First-Class Mail letters were handled via automated equipment in the fiscal year.

volume, up from 42 percent one year ago.

Progress also was made in removing numerous hurdles to customer application of bar codes. The rate case, filed in March 1990, included more customer rate incentives for barcoding and the preparation of automation-compatible mail than any previous case.

Allowing customers to apply bar codes in the address block — another major hurdle — was cleared with the development of wide area bar code reading technology a year ahead of schedule. By June 1991, pre-barcode discounts will be offered for customer address block barcoding destined for half of the three-digit ZIP Codes in the country. Discounts for all mail destinations will be available in September 1991.

This new technology was tested and proven to be effective in Tampa, FL during the year. More than 40 customers provided more than three million pieces of First-Class Mail and third-class mail monthly to support the test. In September, the Postal Service awarded contracts totaling \$27.2 million to add wide-area bar code capability to 1,369 existing bar code sorters and to 1,228 bar code sorters on order.

The development of wide area bar code technology also has improved the prospects for the barcoding and automated processing of flat mail. Plans currently point toward using the wide area reading capability for processing some flats by the end of 1991. The perceived operation would still require manual feeding of flats, but may serve as a sufficient "bridge" while a new generation of fully automated flats sorters are developed.

A filing with the Postal Rate Commission to allow the Postal Service to provide rate incentives for flats barcoding is scheduled to occur in 1991.

Two final barriers to customer barcoding were deciding which bar code to apply to flats and the content of the bar code itself. The decision to commit to the POSTNET format for flats, and to the Advanced Bar Code, which includes delivery address information, removed these barriers. A test of the Advanced Bar Code concept in Indianapolis, IN indicated that use of the code increases by up to 50 percent the amount of time letter carriers can devote to delivery of the mail.

Another new technology — remote barcoding — also began testing in Fiscal Year 1990 in Nassau County, NY and Louisville, KY. This system, based on electronic image processing, is an interim strategy for barcoding mail that cannot be read by existing postal optical character readers, including handwritten mail. A contract for the nationwide deployment of this equipment is expected to be awarded within the next year. The keying portion of this system may be done by contract employees or by postal employees. In July, postal management announced a preliminary decision to contract out this portion of the work, but the affected postal union has been provided an opportunity to offer counterproposals.

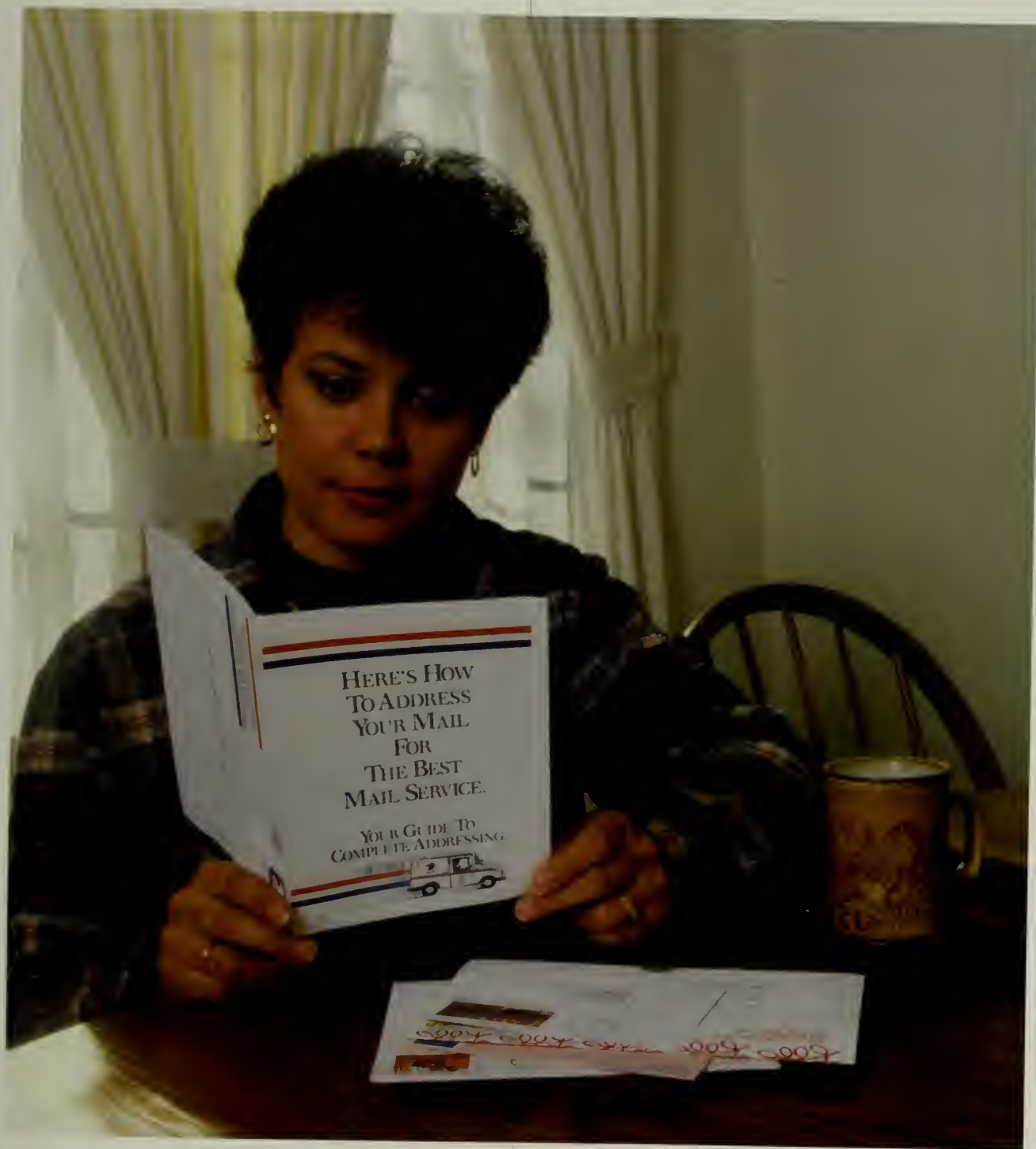
Additionally, funded technology research has made significant progress in the reading of handwritten addresses. New research technology can now read 75 percent of handwritten ZIP Codes with an error rate of less than 0.5 percent. The ability to process handwritten addresses is essential for the full automation of the mailstream and can considerably decrease the cost of handling mail.

Progress also was noted in Fiscal Year 1990 in converting parcel and sack sorting operations to automated processing. All sack sorters in Bulk Mail Centers were equipped with bar code readers by December 1990, and the Postal Service's label printing operations were modified to print bar codes on all sack labels. The principal benefits of these moves were a 15 percent increase in sacks sorted per workhour and a reduction of misdirected sacks. Barcoding of parcels will be implemented in 1992.

The deployment of additional mechanized flats sorting equipment, new facer-canceler machines, a new generation of computerized forwarding machines and other state-of-the art technology made further contributions to higher efficiency in Fiscal Year 1990. Similarly, innovations in addressing quality products such as the CD-ROM ZIP+ 4 Route Retrieval System, the National Change of Address System, the Address Change System for second-class mailers and numerous other services helped broaden customer participation in preparing mail accurately and in address formats compatible with automated processing.

■ The second strategy for restraining postal costs and rates is to generate new net revenue as an offset to overhead costs.

Revenue contribution initiatives seek to expand the use of postal products and services and their contribution to overhead costs so that those costs are spread over a larger volume base.



Above, the Postal Service mailed the Complete Addressing Guide to some 117 million addresses nationwide — the largest direct mailing in history — to encourage better addressing by customers. Market research at selected test sites following this mailing indicated a five-fold increase from 8 percent to 40 percent in customer awareness of the complete addressing and readability programs.

Among key revenue generation initiatives for the year were:

Business Plans. Plans were developed for increasing the overall contribution of Express Mail Service, Priority Mail, international mail and the philatelic program. Increases in the revenue contribution of these products are projected to offset two to three percentage points in postal cost inflation through 1995.

Universal Postal Union. In November and December 1989, the Postal Service hosted the 20th Congress of the Universal Postal Union (UPU) in Washington, DC.

The principal accomplishments of the UPU Congress were new terminal dues structure and rates, development of the Washington General Action Plan, selection of the Postal Service to chair the Executive Council of the UPU for the next five years and development of significant security initiatives.

To recover costs of the UPU Congress, the Postal Service conducted *World Stamp Expo '89*, an international philatelic exhibition. Revenues from this exhibition exceeded what was required to offset UPU Congress expenses.

Olympic Sponsorship. The focus of this sponsorship is to stress through the Olympic association the Postal Service's connection with quality service provided by motivated employees, but the Postal Service also expects to net \$55 million in additional revenue.

This sponsorship has been elevated to a global scope as numerous foreign postal administrations have signed as partner countries. Each partner will share in the cost of sponsorship and serve with the Postal Service as the "*Official Expedited and Package Courier*" for the 1992 Olympic Games.

Customers also will have an opportunity to associate with the Olympics through unique mail order catalog sales programs. Catalog mailers who provide their customers shipping options through the Postal Service will be allowed to display the Olympic rings in advertising the availability of these services. In addition, customers ordering from those catalogs and using Express Mail or Priority Mail as their means of

delivery will have the option of adding to their bill a contribution to support the U.S. Olympic team.

■ The third strategy for restraining postal costs is restraint in postal resource prices, including labor resource costs.

Negotiating labor agreements that hold the growth in average workhour costs below inflation and help increase productivity through a combination of structural changes, increased flexibility, control of health benefit costs and simple wage restraint is a major part of the third leg of the reasonable rates strategy. This strategy recognizes that not all the necessary gains in offsetting postal inflation can come just from productivity or revenue generation initiatives.

The Postal Service entered into negotiations with its four major unions during Fiscal Year 1990. On November 20, 1990, the Postal Service and the four unions failed to reach agreement on new collective bargaining pacts. In accordance with the Postal Reorganization Act of 1970, the parties to each negotiation requested arbitration boards that will provide full and fair hearings on the issues in conflict and make binding decisions within 45 days of their appointment.

Another strategy to contain costs involves expanding the Postal Service's supplier base. During Fiscal Year 1990, the Postal Service awarded nearly 74,000 contracts worth more than \$4.1 billion. Efforts to increase competition for Postal Service automation needs began paying dividends during the fiscal year. Two new suppliers are now meeting the Postal Service's automation requirements. Recognizing that reliable and innovative suppliers can prove an integral part of cost containment initiatives, the Postal Service awarded its first Quality Supplier Awards in Fiscal Year 1990. Eleven companies, representing all segments of American business, received the awards.



Above, Postmaster General Anthony M. Frank (right) presented President George Bush with a letter carrier's satchel and named him an honorary "letter carrier to the world" at the opening ceremonies of the Universal Postal Union Congress in Washington, DC.



To millions of American children, there is no more recognizable image seen daily in the community than their neighborhood letter carrier or their local post office. In Fiscal Year 1990, postal employees from the Brooklyn-Queens Division became a partner with the New York Police Department in a special "Safe Haven" program designed to protect and assist children in distress. Above, children who believe they are in danger or are being followed by a stranger are encouraged to seek out their nearest local post office or neighborhood letter carrier for help.

PROGRESS TOWARD INCREASED EMPLOYEE COMMITMENT

Achieving planned productivity increases, revenue generation, cost containment and service quality improvement will require a high level of cooperation and commitment from employees. The objective is a working environment that fosters, at all levels, increased commitment to the achievement of quality service at reasonable rates.

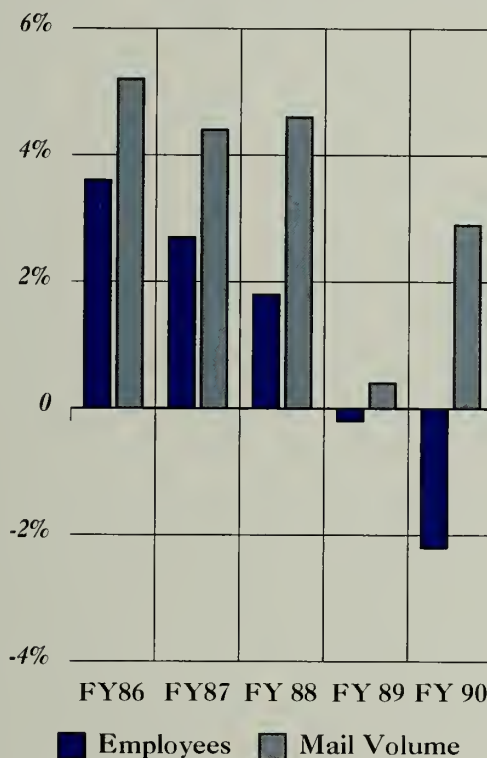
The plan includes four strategies to promote achievement of this objective:

- The first strategy is to communicate effectively and credibly to all employees the values, goals and objectives of the Postal Service.

With the publication of its strategic plan, the Postal Service mounted a major effort during Fiscal Year 1990 to acquaint its employees with its changing values, goals and objectives.

Postmaster General Anthony M. Frank detailed the strategic plan and the issues that underpin it in "Frank Talk," a newsletter mailed to all employees at their homes. Periodic updates on progress toward the plan and other issues of importance to employees were included in later

COMPARISON OF ANNUAL PERCENTAGE CHANGE FOR MAIL VOLUME AND CAREER EMPLOYEES



A trend toward processing more mail with less employees reflects the Postal Service's commitment to automation. Mail volume increased by 2.9 percent and the number of career employees dropped by 2.2 percent in Fiscal Year 1990.

issues of this newsletter.

Communications vehicles — including *Postal Life*, the employee magazine; *Postal Leader*, a newsletter mailed to all management and supervisory personnel; and *Perspectives*, a video magazine provided to the Postal Service's field divisions — dealt extensively with the plan and major business issues affecting the Postal Service throughout the year.

The plan was unveiled in a national meeting of the Postal Service's officers and its 73 Division General Managers/Postmasters. The General Managers were

“Efforts also were undertaken during the fiscal year to improve relationships throughout the Postal Service by working with the postal unions and management associations.”

subsequently provided with materials to enable them to articulate the major strategies to all employees through formal presentations, supervisory “stand up talks,” locally produced employee newsletters and videos.

The postal unions and management associations were included in the national management meetings and received regular briefings on the plans and issues throughout the fiscal year. Postal officers and other speakers appeared at every national management association convention, at the annual meeting of one postal union and at hundreds of career awareness and other conferences to articulate further the values and essential business strategies embodied in the plan.

Postal employees also received a mailing at their homes informing them of their pay and benefit levels as an expression of the monetary value the Postal Service places on its employees.

■ The second strategy is to develop, as one means of employee feedback, quantitative surveys that track changes in employee attitudes and concerns.

To assure that employees have valid means of feedback in their communications with management, work commenced during the fiscal year on tracking changes in employee attitudes. These surveys will be used as a diagnostic tool and as the foundation for increasing the credibility and utility of communications between management and employees.

Efforts also were undertaken during the fiscal year to improve relationships throughout the Postal Service by working with the postal unions and management associations. Union leaders were invited to meet with and to brief members of the Board of Governors and to express their concerns with major Postal Service initiatives such as automation and remote video encoding.

In response to these issues and to the growing cultural diversity of the postal workforce, a comprehensive study of the Postal Service’s human resources needs was begun during the fiscal year.



Above, the delivery of mail on the day following the Loma Prieta earthquake, despite sustaining serious damage to mail processing facilities and post offices throughout the San Francisco Bay Area, demonstrated uncommon employee commitment and signaled the beginning of the return to normal for many Northern California residents.

The study is focused on identifying future hiring levels and the technical skills the Postal Service will need to continue to improve its efficiency, and on balancing its organizational needs with the personal needs of employees.

■ The third strategy for increasing employee commitment is to improve relationships throughout the Postal Service by working with postal unions and management associations and by consistent use of the selection, training, appraisal and reward systems.

Both the Employee Involvement/Quality of Working Life (EI/QWL) and Management by Participation programs continued to receive emphasis throughout Fiscal Year 1990. The EI/QWL process is dedicated to creating opportunities for employees to participate in finding creative solutions to operating and other problems. Approximately 6,500 work teams and quality circles, as well as 400 Joint Steering Committees, were functioning regularly at the end of the fiscal year.

The Management by Participation effort is a joint commitment between the Postal Service and its three management associations to work together to foster improved communications, working relationships and commitment. The process is intended to promote participative management and to focus attention on identifying and solving persistent problems impeding operating efficiency and service effectiveness.

In addition to these participative initiatives, the Postal Service continued its efforts to increase the skills of its diverse workforce. More than 10 million hours of training were provided to managers and employees during the fiscal year. Including trainees' salaries, the Postal Service spent \$359 million for training during the year. About 75 percent of that training was conducted in field installations.

To broaden the reach of its training efforts in a cost-effective manner, the Postal Service also developed a satellite video training network linking its management academy in Potomac, MD and its technical training center in Norman, OK to all 73 field divisions.

The new network will allow more managers and employees to increase their technical skills by receiving training in their home community, which will reduce travel and related costs and, in turn, increase the amount of resources that are directed to the actual training.

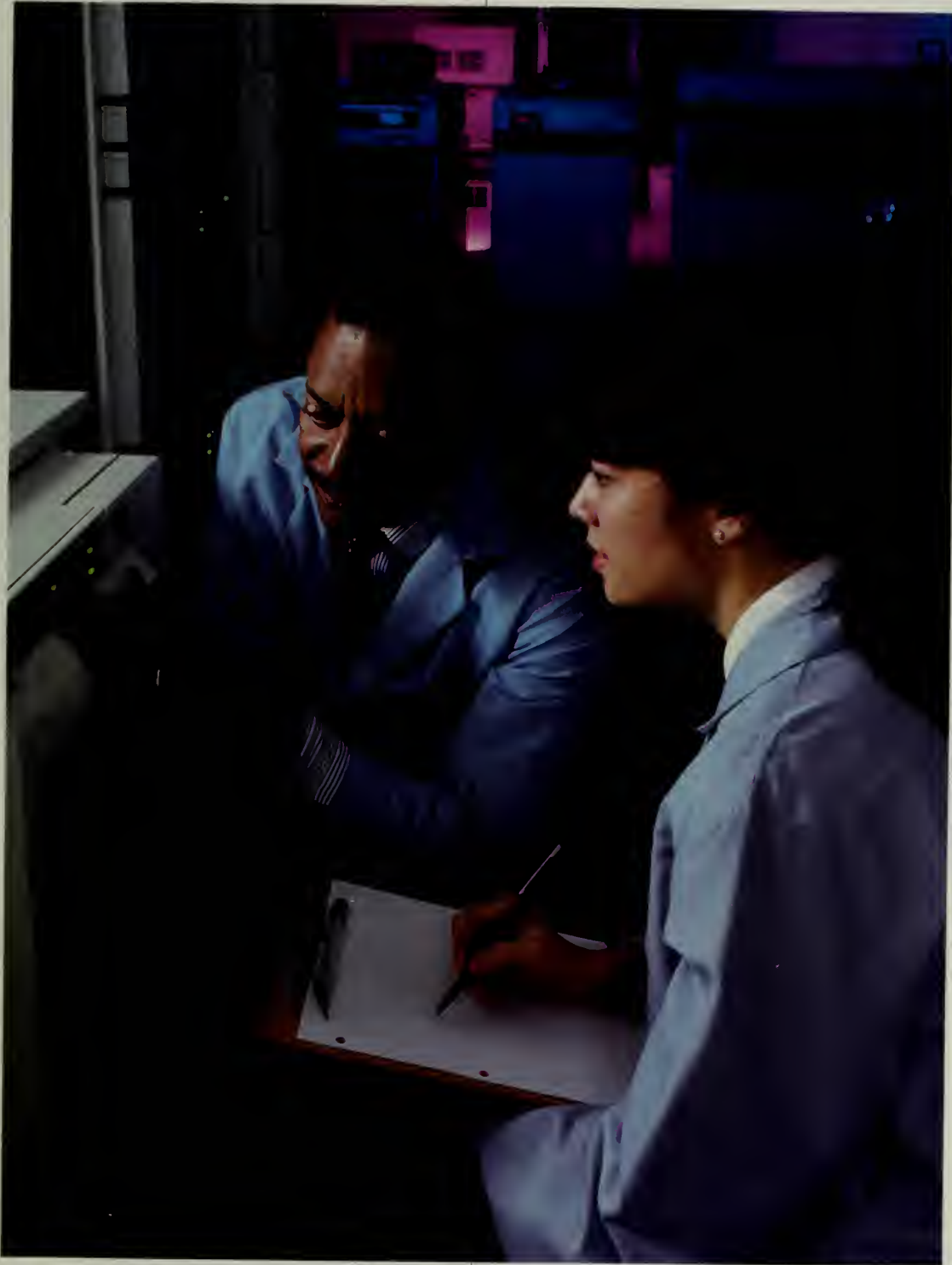
This network will be used extensively to prepare postal acceptance clerks and other public-contact employees for the planned rate adjustments in 1991. It also will be used for a variety of other training applications.

■ The fourth strategy for improving employee commitment is to improve motivation and performance, both group and individual, through measurement, recognition and compensation based on results.

To encourage excellent service, efficiency and productivity, employees could be rewarded with bonuses to recognize top performance. Among other factors, incentives could be based on periodic comparisons of revenue to paid hours, and reports generated by the Customer Satisfaction Index. The intent is to link employee performance with the Postal Service's corporate goals.

These strategies recognize that postal employees, like workers in other industries, increasingly are rejecting regimentation and are seeking greater balance in their working and personal lives. Moreover, the transition to an automated mail processing environment will have a major impact on work assigned to employees, on their working schedules and, in some cases, their work locations. These all are issues that require increased sensitivity on the part of postal managers.

These strategies, therefore, suggest that continued changes in the Postal Service's managerial style and its structure are necessary to assure future high performance levels. More flexible approaches to compensation — including not just pay, but opportunities to be involved — must be developed. Progress toward these important initiatives, too, was made in Fiscal Year 1990.



The Postal Service invested about \$359 million in employee training in Fiscal Year 1990. Above, state-of-the-art automated technology and a well-trained, diverse workforce are integral to higher employee commitment.

ANNUAL REPORT OF THE POSTMASTER GENERAL

GOVERNORS OF THE POSTAL SERVICE



Above, seated left to right: John N. Griesemer, Robert Setrakian, 1989–1990 Chairman, Norma Pace, 1991 Chairman, and Crocker Nevin. Standing: Bert H. Mackie, LeGree S. Daniels, Ira D. Hall, Susan E. Akvarado and Tirso del Junco, M.D.

BOARD OF GOVERNORS FISCAL YEAR 1990

Robert Setrakian, *Chairman of the Board of Governors*, is a San Francisco businessman. He was appointed to the Board in December 1985 for a term expiring December 8, 1993. He previously served as a Commissioner of the Federal Maritime Commission from 1983 to 1985.

John N. Griesemer, *Vice Chairman of the Board*, is President of the Griesemer Stone Company and General Warehouse Corporation in Springfield, MO. He became a Governor in December 1984 for a term that expired December 8, 1986. He was reappointed, without a break in service, to a full term, expiring December 8, 1995. He was selected Chairman of the Board in January 1987 and served two years. (*Governor Griesemer was reelected Vice Chairman of the Board of Governors on January 8, 1991.*)

Norma Pace, *Chairman of the Audit Committee of the Board*, was appointed to serve on the Board in May 1987 for a term expiring December 8, 1994. An economist and consultant to several top corporations in the nation, she is the author of numerous articles for business publications on forecasting and the use of forecasting in business planning. (*Governor Pace was elected Chairman of the Board of Governors on January 8, 1991.*)

Susan E. Alvarado, Vice President of Operations, Akmer International, Inc., an Alexandria, VA-based exporter/importer and fabricator of marble and granite, was appointed in July 1988 to serve on the Board for a term expiring December 8, 1996. Prior to joining Akmer, she was President of the Alvarado Group, a Washington, DC government relations firm. Formerly Assistant for Legislative Affairs to Assistant Minority Leader Senator Ted Stevens of Alaska — and subsequently to Vice President George Bush — she later served as Vice President for Congressional liaison for the National Association of Broadcasters.

LeGree S. Daniels, a noted civil rights activist, was appointed to the Board in August 1990 for a term expiring December 8, 1998. She served as the U. S. Department of Education's Assistant Secretary for Civil Rights from 1987 to 1989. Previously, she served as Deputy Secretary of the Commonwealth of Pennsylvania.

Tirso del Junco, M.D., a Los Angeles surgeon and entrepreneur, was appointed to the Board in July 1988 for a term expiring December 8, 1991. He founded and served as Chairman of the Board of the Los Angeles National Bank and now serves as a member of the Board of Regents of the University of California.

Ira D. Hall, Treasurer of IBM US, was appointed to serve on the Board in November 1987. His term expired December 8, 1990. (As provided by law, he will continue to serve on the Board until December 8, 1991, or until his successor is confirmed by the Senate.) Prior to joining IBM, he was a Senior Vice President of the New York investment firm of L.F. Rothschild, Unterberg, Towbin.

Bert H. Mackie, President of the Security National Bank of Enid, OK, was appointed to serve on the Board on December 9, 1988. His term will expire December 8, 1997. He is an ardent supporter of quality education and is a trustee of the Oklahoma Foundation for Excellence.

Crocker Nevin became a Governor in August 1986 and will serve the remainder of a term expiring December 8, 1992. He previously served on the Board of Governors from 1971 to 1977. He has an extensive background in banking, finance and community service.

Anthony M. Frank was appointed the nation's 69th Postmaster General by the Board on February 2, 1988, taking office March 1, 1988. Prior to joining the Postal Service, he was Chairman of the Board and Chief Executive Officer of First Nationwide Bank, one of the nation's largest consumer banking operations.

Michael S. Coughlin was named Deputy Postmaster General by the Board on January 5, 1987 after holding a series of top-level postal management positions. Now the Chief Operating Officer of the Postal Service, he entered it in 1967 as a management intern.

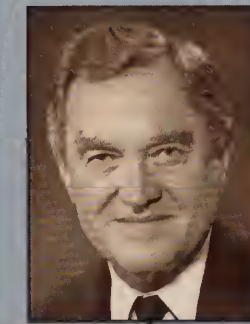
Also serving on the Board during Fiscal Year 1990 was John L. Ryan, whose term expired December 8, 1989, but who continued to serve as provided by law until August 1990.

OFFICERS OF THE U. S. POSTAL SERVICE

Officers of the Postal Service are appointed by and serve at the pleasure of the Postmaster General, and are authorized to execute and fulfill the duties of their office according to law. In selecting them, the Postal Service places special trust and confidence in their integrity and ability.

OFFICERS OF THE U. S. POSTAL SERVICE

AS OF JANUARY 11, 1991



Anthony M. Frank
Postmaster General



Michael J. Shinay
Executive Assistant
to the Postmaster General



Michael S. Coughlin
Deputy
Postmaster General



Edward E. Horgan, Jr.
Associate
Postmaster General



Kenneth J. Hunter
Associate
Postmaster General



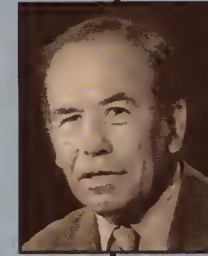
William R. Cummings
Senior Assistant
Postmaster General,
Operations Support
Group



Joseph R. Caraveo
Regional
Postmaster General,
Western Region



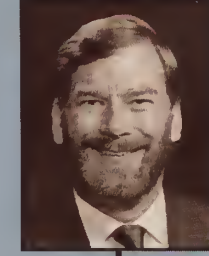
Richard J. Strasser, Jr.
Senior Assistant
Postmaster General,
Marketing and
Customer Service
Group



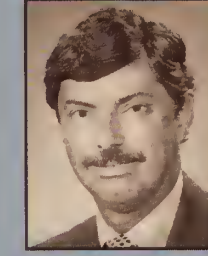
Comer S. Coppie
Senior Assistant
Postmaster
General,
Finance Group



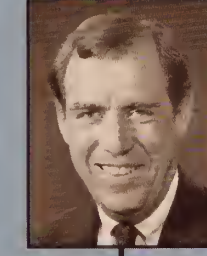
Charles R. Clauson
Chief Postal
Inspector



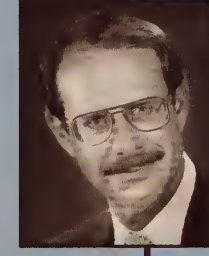
Harold J. Hughes
General Counsel



David H. Charters
Senior Assistant
Postmaster General,
Corporate Quality
Program Group



Joseph J. Mahon, Jr.
Senior Assistant
Postmaster General,
Human Resources
Group



Mitchell H. Gordon
Senior Assistant
Postmaster General,
Administrative
Services Group



William Dowling
Assistant
Postmaster General,
Engineering and
Technical Support
Department



Samuel Green, Jr.
Regional
Postmaster General,
Eastern Region



Deborah K. Bowker
Assistant
Postmaster General,
Communications
Department



Gordon C. Morison
Assistant
Postmaster General,
Philatelic and Retail
Services Department



Frank R. Heseltin
Assistant
Postmaster General,
Rates and Classification
Department



Fred Eggleston
Deputy
General Counsel



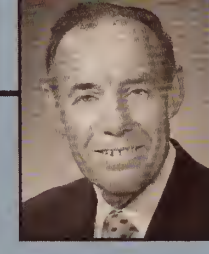
Frank R. Power
Assistant
Postmaster General,
Planning Department



Sherry A. Cagnoli
Assistant
Postmaster General,
Labor Relations
Department



Ann McK. Robinson
Consumer Advocate



John J. Davin
Assistant
Postmaster General,
Procurement
and Supply
Department



Allen R. Kane
Assistant
Postmaster General,
Delivery, Distribution
and Transportation
Department



Peter A. Jacobson
Regional
Postmaster General,
Northeast Region



James A. Cohen
Judicial Officer



John R. Wargo
Assistant
Postmaster General,
Marketing
Department



Stephen M. Kearney
Treasurer



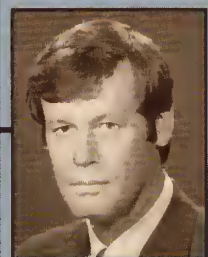
M. Richard Porras
Assistant
Postmaster General,
Department of the
Controller



Arthur I. Porwick
Assistant
Postmaster General,
Operations Systems
and Performance
Department



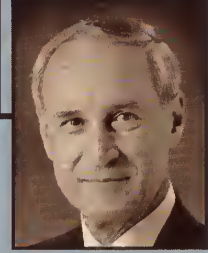
Jerry K. Lee, Sr.
Regional
Postmaster General,
Southern Region



William T. Johnstone
Assistant
Postmaster General,
Government Relations
Department



John G. Mulligan
Regional
Postmaster General,
Central Region



Thomas E. Leavey
Assistant
Postmaster General,
International Postal
Affairs Department



Stephen E. Miller
Assistant
Postmaster General,
Automation
Implementation
Management
Department



Elwood A. Mosley
Assistant
Postmaster General,
Training and
Development
Department



Karen T. Uemoto
Assistant
Postmaster General,
Technology Resource
Department



Stanley W. Smith
Assistant
Postmaster General,
Facilities
Department



Joel S. Trosch
Assistant
Postmaster General,
Employee Relations
Department



Richard D. Weirich
Assistant
Postmaster General,
Information Resource
Management
Department

Also serving as Officers during Fiscal Year 1990 were:
William A. Campbell, Regional Postmaster General,
Southern Region; Louis A. Cox, General Counsel;
Peter K. Eichorn, Senior Assistant Postmaster General,
Marketing & Communications Group; and
James R. Glassco, Treasurer.

FINANCIAL STATEMENTS
BALANCE SHEETS

UNITED STATES POSTAL SERVICE	SEPT. 30, 1990	SEPT. 30, 1989
ASSETS	(DOLLARS IN THOUSANDS)	
Current assets		
Cash and cash equivalents	\$ 1,737,793	\$ 1,876,553
U.S. Government securities at amortized cost, which approximates market	1,895,552	2,827,181
Receivables		
Foreign countries	390,326	344,481
U.S. Government	102,567	139,889
Accrued interest	29,837	59,833
Other	63,714	59,528
	586,444	603,731
Less allowances	28,921	27,285
	557,523	576,446
Supplies, advances and prepayments	202,473	168,259
Total current assets	4,393,341	5,448,439
Other assets—Note 5	26,936	16,341
Property and equipment, at cost—Note 5		
Buildings	7,433,508	6,954,582
Equipment	5,134,542	4,656,713
Land	1,302,322	1,209,555
	13,870,372	12,820,850
Less allowances for depreciation	4,449,609	3,988,248
	9,420,763	8,832,602
Construction in progress	1,885,211	1,302,258
Leasehold improvements, net of amortization	217,116	201,144
	11,523,090	10,336,004
Deferred retirement costs—Note 4	21,426,196	20,971,164
	\$37,369,563	\$36,771,948

See accompanying notes to financial statements.

UNITED STATES POSTAL SERVICE

SEPT. 30, 1990

SEPT. 30, 1989

LIABILITIES AND NET CAPITAL DEFICIENCY

(DOLLARS IN THOUSANDS)

Current liabilities

Compensation and benefits	\$ 2,414,372	\$ 2,110,586
Estimated prepaid postage	1,296,000	1,252,000
Payables and accrued expenses		
Foreign countries	405,870	372,006
U.S. Government	255,710	280,886
Other	221,126	204,932
	<u>882,706</u>	<u>857,824</u>
 Prepaid permit mail and box rentals	 887,072	 830,053
Outstanding postal money orders	506,455	544,203
Current portion of long-term debt	303,200	303,200
Total current liabilities	<u>6,289,805</u>	<u>5,897,866</u>
 Long-term debt, less current portion—Note 5	 6,667,530	 6,173,062
 Other liabilities		
Amounts payable for retirement benefits—Note 4	20,767,653	20,359,305
Workers' compensation claims	3,780,000	3,745,000
Employees' accumulated leave	998,478	940,581
Other	143,763	57,763
	<u>25,689,894</u>	<u>25,102,649</u>

Commitments and contingencies—Notes 3, 4, 6 and 7

Net capital deficiency

Capital contributions of the U.S. Government	3,034,127	3,036,586
Deficit since reorganization	(4,311,793)	(3,438,215)
Total net capital deficiency	<u>(1,277,666)</u>	<u>(401,629)</u>
	<u>\$37,369,563</u>	<u>\$36,771,948</u>

See accompanying notes to financial statements.

STATEMENTS OF OPERATIONS AND CHANGES IN NET CAPITAL DEFICIENCY

UNITED STATES POSTAL SERVICE	YEAR ENDED SEPT. 30, 1990	YEAR ENDED SEPT. 30, 1989
	(DOLLARS IN THOUSANDS)	
Operating revenue—Note 2	\$39,654,830	\$38,415,092
Operating expenses		
Compensation and benefits—Notes 3 and 4	34,214,093	32,368,364
Other	6,275,791	6,002,394
	<u>40,489,884</u>	<u>38,370,758</u>
 (Loss) income from operations	(835,054)	44,334
Interest income	419,691	504,513
Interest expense	(458,215)	(488,128)
Net (loss) income	(873,578)	60,719
 Net capital deficiency—beginning of year	(401,629)	(460,434)
 Capital equipment transferred to U.S. Government	(2,459)	(1,914)
Net capital deficiency—end of year	<u>(\$ 1,277,666)</u>	<u>(\$ 401,629)</u>

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

UNITED STATES POSTAL SERVICE	YEAR ENDED SEPT. 30, 1990	YEAR ENDED SEPT. 30, 1989
(DOLLARS IN THOUSANDS)		
Cash flows from operating activities:		
Net (loss) income	(\$ 873,578)	\$ 60,719
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	668,751	598,736
Increase in other liabilities	86,000	27,763
Increase in employees' accumulated leave	57,897	58,001
Increase in noncurrent workers' compensation claims	35,000	378,000
(Increase) decrease in retirement, net	(46,684)	37,293
Changes in current assets and liabilities:		
Increase in compensation and benefits	303,786	151,328
Increase in prepaid permit mail and box rentals ..	57,019	43,363
Increase in estimated prepaid postage	44,000	56,000
Increase in payables and accrued expenses	24,882	3,586
Decrease in receivables, net	18,923	45,524
Increase in supplies, advances and prepayments	(34,214)	(5,592)
(Decrease) increase in outstanding postal money orders	(37,748)	108,020
Net cash provided by operating activities	304,034	1,562,741
Cash flows from investing activities:		
Sale (purchase) of U.S. Government securities, net ..	931,629	(42,749)
Purchase of property and equipment, net	(1,858,296)	(1,399,627)
Net cash used in investing activities	(926,667)	(1,442,376)
Cash flows from financing activities:		
Issuance of long-term debt	800,000	900,000
Increase in other assets	(10,595)	(2,923)
Payments on long-term debt	(305,532)	(303,642)
Net cash provided by financing activities	483,873	593,435
Net (decrease) increase in cash and cash equivalents	(138,760)	713,800
Cash and cash equivalents at beginning of year	1,876,553	1,162,753
Cash and cash equivalents at end of year	<u>\$1,737,793</u>	<u>\$1,876,553</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	<u>\$ 565,259</u>	<u>\$ 544,888</u>
Cash received during the year for interest	<u>\$ 449,687</u>	<u>\$ 474,321</u>

See accompanying notes to financial statements.

UNITED STATES POSTAL SERVICE NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1990 AND 1989

1. POSTAL REORGANIZATION & ACCOUNTING POLICIES*Postal Reorganization*

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

Cash Equivalents

—Cash equivalents include securities with maturities at date of purchase of 90 days or less.

Property and Equipment

—Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease period or their useful life. Repair and maintenance costs are expensed as incurred.

Estimated Prepaid Postage

—Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

Workers' Compensation Claims

—Workers' compensation costs are self-insured by the Postal Service. Such costs are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends and other factors.

Retirement Benefits

—Amounts payable for retirement benefits reflect the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the CSRS Fund) arising from increases in basic pay granted by postal management to its employees and cost-of-living adjustments (COLAs) to postal annuitants based on postal service. Also included in this total is an unfunded liability arising from the transfer of Civil Service Retirement System (CSRS) employees into the Federal Employees Retirement System (FERS). These liabilities are payable in equal amounts over a 30-year period, with the exception of COLAs, which are payable over 15 years. Amounts applicable to operations of future years are capitalized as deferred retirement costs and are subsequently amortized over periods of 30 and 15 years.

Research and Development Costs

—Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to approximately \$81,000,000 in Fiscal Year 1990 and \$61,000,000 in Fiscal Year 1989.

Retiree Health Benefits

—Retiree health benefit costs are expensed as incurred. The Financial Accounting Standards Board has issued an Exposure Draft of a proposed Statement on Accounting Standards, "Employers' Accounting for Post-Retirement Benefits Other Than Pensions," that would change generally accepted accounting principles for retiree health benefits. The Postal Service has not determined what effect the proposed change might have on its financial statements, should the proposed Statement be adopted in its present form.

2. REVENUE FORGONE

Operating revenue includes reimbursement for revenue forgone. Revenue forgone results from charging lower rates for the mail categories which Congress has determined should be subsidized through tax dollars. Revenue forgone reimbursed to the Postal Service during Fiscal Years 1990 and 1989 amounted to \$453,425,000 and \$436,417,000, respectively.

3. POST-RETIREMENT HEALTH BENEFIT PROGRAMS

Career employees of the Postal Service are eligible to participate in the Federal Employees Health Benefit Plan (FEHBP), which is administered by the Office of Personnel Management (OPM), during their employment and also after retirement. Under the FEHBP, the Postal Service pays a portion of the health insurance premiums of participating employees, retirees and their survivors.

—Public Law 99-272, enacted in April 1986, obligated the Postal Service to pay the employer's share of health insurance premiums incurred through participation in the FEHBP for employees retiring after September 30, 1986 and their survivors, with no apportionment of such costs for non-Postal Service employment. Such costs amounted to \$166,000,000 in Fiscal Year 1990 and \$100,000,000 in Fiscal Year 1989.

—The Omnibus Budget Reconciliation Act of 1990 (OBRA 1990) was enacted in October 1990, and extended the Postal Service's obligation to include the employer's share of health insurance premiums incurred through participation in the FEHBP for all employees retiring after June 30, 1971 and their survivors, with the exclusion of costs attributable to non-Postal Service employment. This increased obligation commenced on October 1, 1990 and therefore no provision for its effects has been included in the accompanying financial statements.

—Under the provisions of OBRA 1990, the increased obligation referred to in the preceding paragraph includes reimbursements of \$455,000,000 that will be payable by the Postal Service to the Federal Employee Health Benefit Fund for the employer's share of retiree and survivor health benefit premiums incurred through participation in the FEHBP and paid by the federal government for Postal Service employees retiring during the period from July 1, 1971 through September 30, 1986. The reimbursements due from the Postal Service are payable from Fiscal Year 1991 through Fiscal Year 1995.

4. RETIREMENT PROGRAMS

Description of Plans and Contribution Rates

The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the Civil Service Retirement System (CSRS). CSRS provides a basic annuity and Medicare coverage.

—Employees hired between January 1, 1984 and January 1, 1987 were covered by the provisions of the Dual Civil Service Retirement/Social Security System until January 1, 1987. Certain employees with prior government service continue to be covered by such provisions.

—Effective January 1, 1987, employees hired since January 1, 1984, except as noted above, are subject to the provisions of the Federal Employees Retirement System (FERS) Act of 1986. In addition, employees hired prior to January 1, 1984 were able to elect participation in FERS during certain periods in Fiscal Years 1987 and 1988. FERS is a three-tier retirement system consisting of Social Security, a basic annuity plan and a thrift savings plan.

—The Postal Service is required to contribute a minimum of 1 percent per annum of the basic pay of FERS employees to the thrift savings plan. Contributions by FERS employees to the thrift savings plan are voluntary and are fully matched by the Postal Service up to 3 percent of basic pay and at a 50 percent rate between 3 percent and 5 percent of basic pay.

—The following table summarizes contribution rates for these retirement plans during Fiscal Years 1990 and 1989. Contributions for Social Security and Medicare are based upon gross Social Security wages. All other contributions are based on a percent of basic pay.

	POSTAL SERVICE		EMPLOYEES	
	1990	1989	1990	1989
Civil Service Retirement System				
<i>Contributions for:</i>				
Retirement and Disability Fund	7.00%	7.00%	7.00%	7.00%
Medicare	1.45%	1.45%	1.45%	1.45%
Thrift Savings Plan	—	—	0-5%	0-5%
Dual Civil Service Retirement System/ Social Security				
<i>Contributions for:</i>				
Retirement and Disability Fund	7.00%	7.00%	0.80%	0.94%
Social Security	7.65%	7.51%	7.65%	7.51%
Thrift Savings Plan	—	—	0-5%	0-5%
Federal Employees Retirement System				
<i>Contributions for :</i>				
Basic Annuity Plan	13.00%	12.86%	0.80%	0.94%
Social Security	7.65%	7.51%	7.65%	7.51%
Thrift Savings Plan	1-5%	1-5%	0-10%	0-10%

The following table summarizes the number of employees enrolled in each of the retirement plans at the end of Fiscal Years 1990 and 1989.

	1990	1989
Civil Service Retirement System	447,538	474,017
Dual Civil Service Retirement System/ Social Security	14,470	14,294
Federal Employees Retirement System	298,086	288,811

Unfunded Liability

The unfunded liability of the FERS basic annuity plan relates to costs associated with employees who transferred from the CSRS. This liability is determined by the Office of Personnel Management (OPM), and is funded by the Postal Service through supplemental contributions over a 30-year period with interest computed at 7 percent per annum. In Fiscal Year 1989, OPM determined the initial supplemental liability under FERS attributable to Postal Service employees at September 30, 1988 to be \$400,000,000. An annual payment of \$32,235,000 is due on September 30 of each year. The FERS unfunded liability balance totalled \$361,274,000 and \$367,765,000 as of September 30, 1990 and 1989, respectively.

—Under the CSRS, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the CSRS Fund attributable to Postal Service employee-management agreements that authorize increases in employees' basic pay on which benefits payable from the CSRS Fund are computed. The estimated increase in the unfunded liability as determined by OPM is paid by the Postal Service in 30 equal annual installments with interest computed at 5 percent per annum. The first payment thereof is due at the end of the fiscal year in which an increase in the basic pay becomes effective.

—The increases in the unfunded liability for retirement benefits pursuant to employee-management agreements under the CSRS in Fiscal Years 1990 and 1989 were \$661,996,000 and \$811,411,000, respectively. Total increases in the annual payments that resulted from increases in basic pay were \$41,013,000 for Fiscal Year 1990 and \$50,270,000 for Fiscal Year 1989.

—In Fiscal Year 1990, the Postal Service became liable for the cost of COLAs granted to postal annuitants retiring subsequent to September 30, 1986, pursuant to the Omnibus Budget Reconciliation Act of 1989 (OBRA 1989). The annual liability created by this law is determined by OPM and funded in equal annual installments over 15 years, with interest at 5 percent per annum. The first installment became due on September 30, 1990. Total Fiscal Year 1990 expense related to this law amounted to \$73,632,000 and includes retroactive expense attributable to COLAs paid since Fiscal Year 1987. The unfunded liability for annuitants' COLAs as of September 30, 1990, is \$486,470,000.

—The Omnibus Budget Reconciliation Act of 1990, enacted in October 1990, extended the obligation of the Postal Service for COLAs to include COLAs granted to employees retiring from July 1, 1971 through September 30, 1986. Reimbursements due from the Postal Service for COLAs previously funded by the Federal government will amount to \$1,685,000,000 and will be payable to the CSRS Fund from Fiscal Year 1991 through Fiscal Year 1995. This increased obligation commenced on October 1, 1990, and therefore no provision for its effects has been included in the accompanying financial statements.

—The estimated future minimum payments required to fund amounts payable for CSRS and FERS retirement benefits as of September 30, 1990 are as follows:

FISCAL YEAR	AMOUNT
1991	\$ 1,809,028,000
1992	1,735,396,000
1993	1,735,396,000
1994	1,735,396,000
1995	1,735,396,000
Thereafter	<u>26,979,926,000</u>
	35,730,538,000
Less amounts representing interest and the portion classified as a current liability	<u>14,962,885,000</u>
	<u>\$20,767,653,000</u>

—Aggregate retirement expenses for Fiscal Years 1990 and 1989 were \$4,403,000,000 and \$4,374,000,000, respectively, including \$1,764,392,000 and \$1,649,747,000, respectively, attributable to amortization of deferred retirement costs and interest on the unfunded liability.

5. LONG-TERM DEBT AND INTEREST COSTS

The Postal Reorganization Act authorizes the Postal Service to issue and sell obligations not to exceed \$10,000,000,000 outstanding at any one time. As amended by Public Law 101-227, its borrowing authority has been increased to \$12,500,000,000 for Fiscal Year 1991 and \$15,000,000,000 for Fiscal Year 1992. The limit for the yearly net increases outstanding in capital improvements and operating expenses has been increased in Fiscal Year 1990 to \$2,000,000,000 for capital improvements and \$1,000,000,000 for operating expenses from the Fiscal Year 1989 limits of \$1,500,000,000 and \$500,000,000, respectively.

Long term debt consists of the following:

	SEPT. 30, 1990	SEPT. 30, 1989
6-7/8% Postal Service Bonds, Series A, due February 1, 1997	\$ 250,000,000	\$ 250,000,000
<i>Notes payable to Federal Financing Bank:</i>		
8.075% payable \$32,000,000 each year to May 31, 2000	320,000,000	352,000,000
7.80% payable \$15,000,000 each year to May 31, 2001	165,000,000	180,000,000
10.475% payable \$38,800,000 each year to May 31, 2010	776,000,000	814,800,000
7.591% payable \$50,000,000 each year to May 31, 2011	1,050,000,000	1,100,000,000
8.474% payable \$30,000,000 each year to May 31, 2012	660,000,000	690,000,000
8.908% payable \$35,400,000 each year to May 31, 2012	778,800,000	814,200,000
9.074% payable \$60,000,000 each year to May 31, 2012	1,320,000,000	1,380,000,000
9.081% payable \$36,000,000 each year to May 31, 1996 \$12,000,000 due June 2, 1997 ...	228,000,000	264,000,000
8.795% payable \$24,000,000 commencing on May 31, 1997 with 16 payments of \$36,000,000 due each succeeding year ending on May 31, 2013 with an average interest rate of 8.7572%	600,000,000	600,000,000
8.488% payable on October 2, 1995 with interest payments commencing on March 31, 1991	800,000,000	—
Mortgage notes payable including interest of 4.75% to 10% maturing from Fiscal Years 1991 through 2004 secured by land, buildings and equipment with a carrying amount of \$110,000,000 (aggregate annual installments approximate \$6,000,000)	22,930,000	31,262,000
	6,970,730,000	6,476,262,000
Less current portion	303,200,000	303,200,000
	<u>\$6,667,530,000</u>	<u>\$6,173,062,000</u>

The 6-7/8% Series A Postal Service Bonds were issued under a Trust Indenture dated February 1, 1972, and are secured by a first lien on the revenue, income, fees, rents, appropriations, and other receipts of the Postal Service; the proceeds of all obligations issued by the Postal Service; and all sinking and improvement funds established pursuant to the Trust Indenture. On July 31 of each year, the Postal Service is required to deposit in a sinking and improvement fund the sum of \$10,000,000 either in cash or reacquired Series A Bonds. However, at the option of the Postal Service, such sinking fund requirements may be applied to the payment of costs of capital additions or improvements to properties of the Postal Service, or may be used to invest in restricted Treasury securities as agreed with the fund custodian. Since the commencement of the sinking fund in 1978, the Postal Service has applied \$110,000,000 to the construction of mail facilities. The balance in the sinking fund (\$20,000,000 in 1990 and \$10,000,000 in 1989) is classified with other assets in the accompanying balance sheets. The bonds are redeemable prior to maturity in February 1997, at the option of the Postal Service, at the principal amount plus accrued interest.

6. COMMITMENTS

At September 30, 1990, the estimated cost to complete approved Postal Service capital projects was approximately \$2,849,000,000.

—Total rental expense for the years ended September 30, 1990 and 1989 is summarized as follows:

	1990	1989
Noncancellable real estate leases including related taxes (1990, \$45,800,000; 1989, \$41,400,000)	\$491,600,000	\$456,500,000
Facilities leased from General Services Administration subject to 120-day notice of cancellation	34,400,000	35,900,000
Equipment and other short-term rentals	49,800,000	44,900,000
	<u>\$575,800,000</u>	<u>\$537,300,000</u>

At September 30, 1990, the future minimum rentals for all noncancellable leases are as follows:

YEAR	TOTAL
1991	\$ 397,000,000
1992	342,000,000
1993	281,000,000
1994	232,000,000
1995	181,000,000
Thereafter	552,000,000
	<u>\$1,985,000,000</u>

Most of these leases contain renewable options for periods ranging from three to 20 years. Certain noncancellable real estate leases have options to purchase the facilities at prices specified in the leases.

7. CONTINGENCIES

Several equal employment opportunity, employee compensation and postal rate class action lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages, and suits and claims arising out of postal contracts.

—In the opinion of management and General Counsel, adequate provision has been made for amounts which may become due under the suits, claims, and proceedings discussed in the preceding paragraph.

REPORT OF INDEPENDENT AUDITORS

BOARD OF GOVERNORS UNITED STATES POSTAL SERVICE

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 1990 and 1989, and the related statements of operations and changes in net capital deficiency and cash flows for the years then ended. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst & Young

Washington, DC
November 9, 1990

FINANCIAL HISTORY SUMMARY

	1990	1989	1988	1987	1986
(DOLLARS IN THOUSANDS)					
STATEMENT OF OPERATIONS					
Operating revenue	\$39,201,405	\$37,978,675	\$35,035,753	\$31,528,112	\$30,102,091
Public service appropriation	0	0	0	0	0
Revenue forgone appropriation	453,425	436,417	517,000	650,000	715,836
Total operating revenue	<u>39,654,830</u>	<u>38,415,092</u>	<u>35,552,753</u>	<u>32,178,112</u>	<u>30,817,927</u>
Salaries and benefits	34,214,093	32,368,364	30,478,649	27,228,844	25,575,894
Other expenses	6,275,791	6,002,394	5,640,537	5,290,845	5,140,701
Total operating expenses	<u>40,489,884</u>	<u>38,370,758</u>	<u>36,119,186</u>	<u>32,519,689</u>	<u>30,716,595</u>
Operating (loss) income	(835,054)	44,334	(566,433)	(341,577)	101,332
Other (loss) income	(38,524)	16,385	(30,477)	118,891	203,276
Net (loss) income	<u>(\$ 873,578)</u>	<u>\$ 60,719</u>	<u>(\$ 596,910)</u>	<u>(\$ 222,686)</u>	<u>\$ 304,608</u>
BALANCE SHEET					
Assets					
Current assets	\$ 4,393,341	\$ 5,448,439	\$ 4,731,822	\$ 5,340,524	\$ 4,658,520
Property, plant and equipment, deferred retirement costs and other assets	32,976,222	31,323,509	29,940,440	26,746,689	25,155,662
Total assets	<u>\$37,369,563</u>	<u>\$36,771,948</u>	<u>\$34,672,262</u>	<u>\$32,087,213</u>	<u>\$29,814,182</u>
Liabilities					
Current liabilities	\$ 6,289,805	\$ 5,897,866	\$ 5,499,569	\$ 5,603,132	\$ 4,846,471
Other liabilities	25,689,894	25,102,649	24,020,423	21,911,231	21,513,194
Long-term debt	6,667,530	6,173,062	5,612,704	4,434,623	3,092,649
(Net capital deficiency) equity	(1,277,666)	(401,629)	(460,434)	138,227	361,868
Total liabilities and equity	<u>\$37,369,563</u>	<u>\$36,771,948</u>	<u>\$34,672,262</u>	<u>\$32,087,213</u>	<u>\$29,814,182</u>
ANALYSIS OF CHANGES IN (NET CAPITAL DEFICIENCY)EQUITY					
Beginning balance	(\$ 401,629)	(\$ 460,434)	\$ 138,227	\$ 361,868	\$ 58,364
Net (loss) income	(873,578)	60,719	(596,910)	(222,686)	304,608
Capital contributions	(2,459)	(1,914)	(1,751)	(955)	(1,104)
Ending balance	<u>(\$ 1,277,666)</u>	<u>(\$ 401,629)</u>	<u>(\$ 460,434)</u>	<u>\$ 138,227</u>	<u>\$ 361,868</u>

IMPACT OF REVENUE FORGONE APPROPRIATION* ON REVENUES, FISCAL YEAR 1990

CLASSES OF SERVICE	TOTAL INCOME OF SERVICE	INCOME FROM REVENUES	INCOME FROM APPROPRIATION	APPROPRIATION AS A PERCENTAGE OF INCOME
(DOLLARS IN MILLIONS)				
First-Class Mail	\$24,023.3	\$24,023.3	none	none
Priority Mail	1,554.7	1,554.7	none	none
Express Mail	630.7	630.7	none	none
Mailgram	8.5	8.5	none	none
Second-Class Mail				
Within-the-county	\$ 123.9	\$ 91.7	\$ 32.2	26.0%
Outside-the-county				
Nonprofit publications	299.4	238.6	60.8	20.3%
Classroom publications	9.2	6.1	3.1	33.7%
Regular-rate publications	1,161.9	1,161.6	0.3	0.0%
Fees	11.3	11.3	none	none
Total Second-Class Mail	\$ 1,605.7	\$ 1,509.3	\$ 96.4	6.0%
Third-Class Mail				
Single-piece rate	\$ 186.2	\$ 186.2	none	none
Regular bulk rate	6,934.9	6,934.9	none	none
Nonprofit bulk rate	1,284.1	908.9	\$375.2	29.2%
Fees	52.4	52.4	none	none
Total Third-Class Mail	\$ 8,457.6	\$ 8,082.4	\$375.2	4.4%
Fourth-Class Mail				
Parcels (zone rate)	\$ 419.2	\$ 419.2	none	none
Bound printed matter	235.3	235.3	none	none
Special rate matter	214.9	214.9	none	none
Library materials	51.8	48.8	\$ 3.0	5.8%
Fees	1.3	1.3	none	none
Total Fourth-Class Mail	\$ 922.5	\$ 919.5	\$ 3.0	0.3%
Free mail for the blind and handicapped	\$ 23.7	-	\$ 23.7	100.0%
International Mail	1,163.2	1,163.2	none	none
Totals	\$38,389.9	\$37,891.6	\$498.3	1.3%
Adjustment for prior years			(44.9)	
Totals			\$453.4	

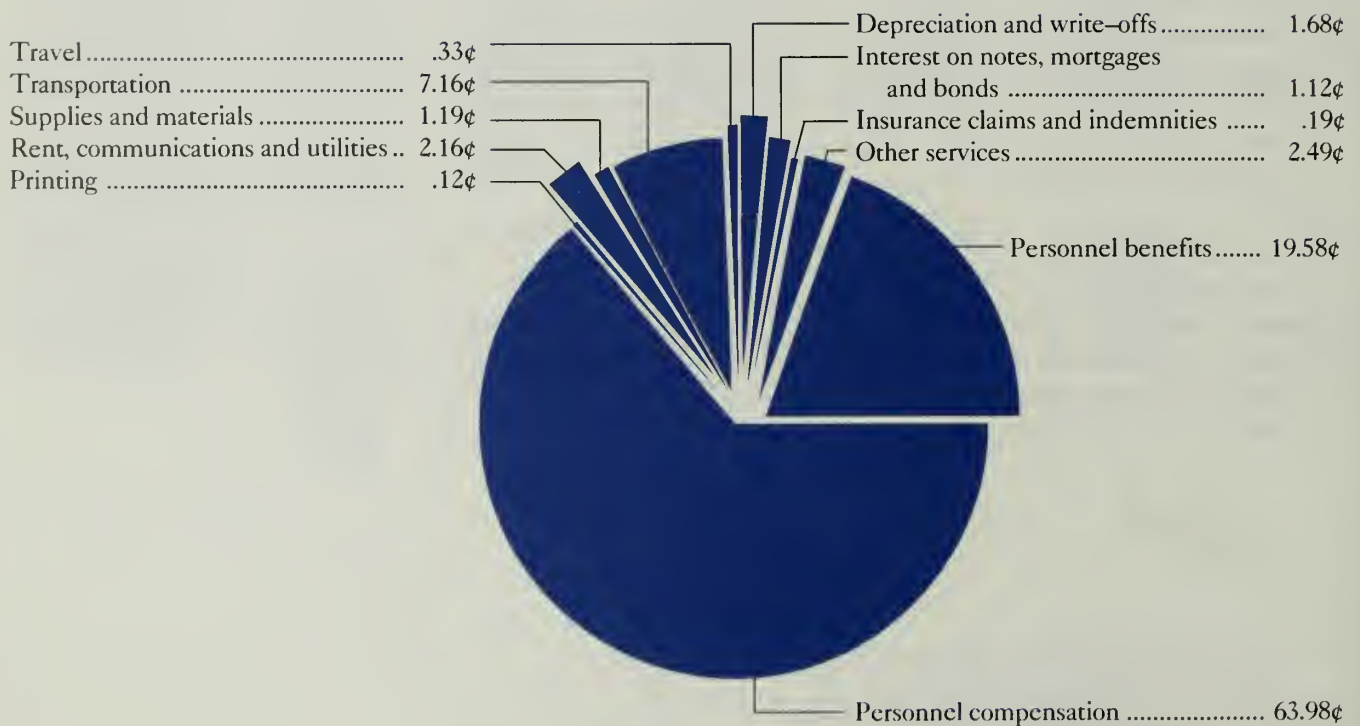
* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate in accordance with Congressional mandate. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

SOURCE OF INCOME, FISCAL YEAR 1990

	(DOLLARS IN MILLIONS)
Mail revenue	\$37,891.6
Special services	1,309.8
Government appropriations for free and reduced rate mail	453.4
Total operating revenue	39,654.8
Total operating expenses	40,489.9
Income from operations	(835.1)
Interest income	419.7
Interest expense	(458.2)
Net loss	(\$ 873.6)

ANALYSIS OF EXPENSES, FISCAL YEAR 1990

(PORTION OF POSTAL SERVICE DOLLAR BY ITEM)



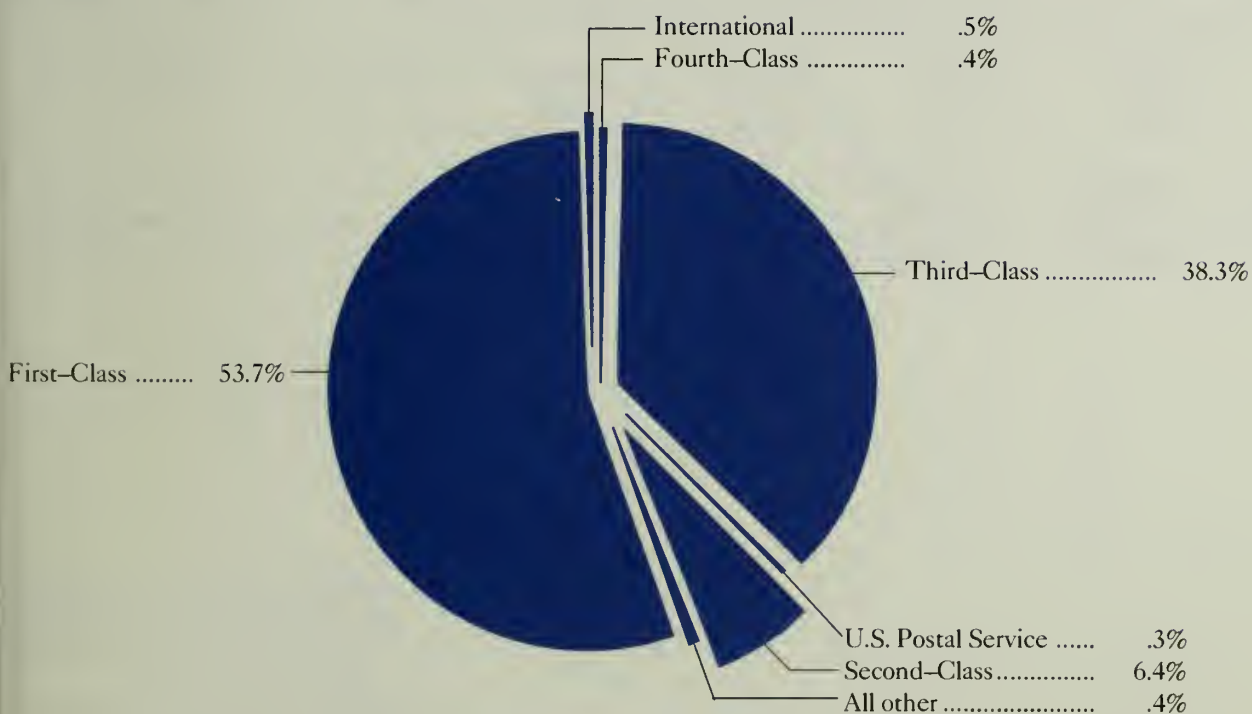
ANALYSIS OF MAIL VOLUME, FISCAL YEAR 1990

	1990	1989	PERCENT CHANGE
(PIECES IN BILLIONS)			
First-Class	89.27	85.86	4.0
Second-Class	10.68	10.52	1.5
Third-Class	63.73	62.78	1.5
Fourth-Class	.66	.63	5.9
U.S. Postal Service	.54	.52	2.0
International	.80	.72	10.3
All other	.63	.57	10.2
Total Mail	<u>166.31*</u>	<u>161.60</u>	2.9

* Rounding the various classes of mail causes the total volume figure to exceed the Fiscal Year annual mail volume of 166.30 billion pieces.

COMPOSITION OF MAIL, FISCAL YEAR 1990

(PERCENTAGE OF TOTAL VOLUME BY CLASS)



OPERATING STATISTICS

Classes of Mail	1990	1989	1988	1987	1986
(IN THOUSANDS OF UNITS INDICATED)					
FIRST-CLASS					
Pieces, number	89,269,649	85,855,458	84,749,464	78,869,309	76,186,648
Weight, pounds	3,339,790	3,216,108	3,174,064	2,970,439	2,811,578
Revenue	\$24,023,323	\$23,234,417	\$21,402,234	\$18,786,027	\$18,034,926
PRIORITY MAIL					
Pieces, number	517,850	470,831	436,735	354,331	329,896
Weight, pounds	1,007,067	939,318	924,666	763,085	704,027
Revenue	\$ 1,554,656	\$ 1,415,820	\$ 1,329,170	\$ 1,085,636	\$ 1,010,709
EXPRESS MAIL					
Pieces, number	58,582	53,308	45,628	41,531	40,095
Weight, pounds	112,451	98,810	84,592	76,832	125,325
Revenue	\$ 630,707	\$ 571,992	\$ 523,804	\$ 498,733	\$ 490,782
MAILGRAM					
Pieces, number	14,001	16,871	19,617	21,900	25,540
Revenue	\$ 8,477	\$ 10,193	\$ 11,831	\$ 13,361	\$ 17,469
SECOND-CLASS					
Pieces, number	10,680,469	10,523,374	10,483,435	10,324,309	10,587,904
Weight, pounds	4,233,113	4,169,919	4,118,140	4,012,421	3,971,641
Revenue	\$ 1,509,346	\$ 1,519,267	\$ 1,400,115	\$ 1,279,847	\$ 1,222,327
THIRD-CLASS					
Pieces, number	63,725,110	62,779,116	63,249,821	59,733,198	55,048,946
Weight, pounds	7,648,088	7,478,767	7,651,602	7,155,038	6,543,988
Revenue	\$ 8,082,377	\$ 7,923,511	\$ 7,311,334	\$ 6,147,551	\$ 5,606,268

Classes of Mail	1990	1989	1988	1987	1986
(IN THOUSANDS OF UNITS INDICATED)					
FOURTH-CLASS					
Pieces, number	662,977	625,932	673,769	615,230	602,006
Weight, pounds	2,109,342	2,196,129	2,335,516	2,178,673	2,254,271
Revenue	\$ 919,540	\$ 908,432	\$ 929,435	\$ 822,917	\$ 814,291
INTERNATIONAL SURFACE					
Pieces, number	165,901	165,799	176,352	266,966	315,734
Weight, pounds	146,216	139,443	137,986	148,138	153,750
Revenue	\$ 222,123	\$ 216,848	\$ 192,884	\$ 205,896	\$ 220,877
INTERNATIONAL AIR					
Pieces, number	632,364	558,056	549,874	510,850	481,993
Weight, pounds	102,397	88,465	84,511	67,774	64,408
Revenue	\$ 941,078	\$ 864,308	\$ 798,750	\$ 751,256	\$ 713,249
PENALTY*					
Pieces, number	—	—	—	2,644,744	2,969,799
Weight, pounds	—	—	—	452,841	468,930
Revenue	—	—	—	\$ 844,158	\$ 896,376
FRANKED*					
Pieces, number	—	—	—	507,019	751,769
Weight, pounds	—	—	—	13,875	17,441
Revenue	—	—	—	\$ 63,164	\$ 96,103
U.S. POSTAL SERVICE**					
Pieces, number	538,427	527,791	530,402	—	—
Weight, pounds	97,388	66,323	64,014	—	—
FREE FOR THE BLIND					
Pieces, number	35,440	26,728	38,528	41,187	35,475
Weight, pounds	30,235	18,463	30,756	41,999	36,793
TOTALS					
Pieces, number	166,300,770	161,603,264	160,953,625	153,930,574	147,375,805
Weight, pounds	18,826,087	18,411,745	18,605,847	17,881,115	17,152,152
Revenue	\$ 37,891,627	\$ 36,664,788	\$ 33,899,557	\$ 30,498,546	\$ 29,123,377

*Beginning in Fiscal Year 1988, Penalty and Franked mail are included in their classes of mail. Volume data for Fiscal Years 1986 and 1987 are not comparable with later years.

**Beginning in Fiscal Year 1988, U.S. Postal Service official mail, formerly included with Penalty mail, is shown separately.

SPECIAL SERVICES	1990	1989	1988	1987	1986
(IN THOUSANDS OF UNITS INDICATED)					
REGISTRY					
Number of articles (paid and free)	45,312	48,939	50,280	52,427	52,348
Revenue	\$ 173,725	\$ 181,270	\$ 184,808	\$ 159,514	\$ 167,363
CERTIFIED					
Number of pieces (paid and free)	191,032	176,540	176,755	160,602	147,374
Revenue	\$ 309,652	\$ 284,394	\$ 260,897	\$ 222,973	\$ 202,927
INSURANCE					
Number of articles (paid and free)	33,102	34,878	35,151	40,006	39,783
Revenue	\$ 47,250	\$ 48,869	\$ 48,175	\$ 51,733	\$ 50,344
COLLECTION-ON-DELIVERY					
Number of articles	9,926	10,049	9,604	10,405	10,383
Revenue	\$ 26,093	\$ 26,993	\$ 20,678	\$ 19,569	\$ 19,528
SPECIAL DELIVERY					
Number of articles (paid and free)	1,161	2,212	5,311	8,440	10,232
Revenue	\$ 6,345	\$ 12,042	\$ 20,196	\$ 25,144	\$ 30,448
MONEY ORDERS					
Number issued	155,141	150,407	144,049	141,977	133,799
Revenue fees	\$ 154,588	\$ 147,771	\$ 141,510	\$ 147,525	\$ 134,647
OTHER					
Box rent revenue	\$ 393,807	\$ 362,318	\$ 295,630	\$ 273,262	\$ 258,582
Stamped envelope revenue	25,181	15,883	22,927	18,434	14,743
Other revenue, net	173,137	234,347	141,375	111,412	100,132
TOTALS					
Special services revenue	\$ 1,309,778	\$ 1,313,887	\$ 1,136,196	\$ 1,029,566	\$ 978,714
Mail revenue	37,891,627	36,664,788	33,899,557	30,498,546	29,123,377
Operating revenue	<u>\$ 39,201,405</u>	<u>\$ 37,978,675</u>	<u>\$ 35,035,753</u>	<u>\$ 31,528,112</u>	<u>\$ 30,102,091</u>

EMPLOYEES*	1990	1989	1988	1987	1986
Headquarters—L'Enfant Plaza	2,291	2,278	2,323	2,112	2,021
Headquarters—Field Support Units	5,691	5,882	5,703	5,820	5,617
Inspection Service (field)	4,259	4,276	4,176	4,300	4,287
FIELD CAREER EMPLOYEES					
Regional Offices	542	431	437	432	603
Postmasters	26,995	27,242	27,846	27,809	27,451
Supervisors	43,458	44,793	44,401	43,297	40,935
Prof. Admin, Tech. Personnel	9,793	10,528	10,587	10,620	8,766
Clerks	290,380	300,908	304,120	303,470	296,514
Nurses	286	318	332	329	337
Mailhandlers	51,123	52,295	51,855	50,718	49,714
City Delivery Carriers	236,081	240,159	240,276	233,516	227,676
Motor Vehicle Operators	7,308	7,357	7,326	7,221	7,057
Rural Delivery Carriers & Substitutes on Vacant Routes	42,252	40,802	39,489	36,955	36,327
Special Delivery Messengers	2,012	2,142	2,191	2,256	2,337
Bldg. & Equip. Maintenance Personnel	33,323	33,348	33,119	31,713	30,696
Vehicle Maintenance Personnel	4,874	4,956	4,902	4,770	4,591
Total career employees	760,668	777,715	779,083	765,338	744,929
NON-CAREER EMPLOYEES					
Casuals	26,829	21,209	32,424	14,483	27,382
Non-Bargaining Temporary	414	371	286	308	345
Rural Subs/RCA/RCR/AUX	43,373	42,355	41,122	38,987	39,866
PM Relief/Leave Replacements	11,979	11,902	11,987	11,675	11,346
OFFICES, STATIONS AND BRANCHES	1990	1989	1988	1987	1986
Number of post offices	28,959	29,083	29,203	29,319	29,344
Number of stations and branches:					
Classified stations and branches	5,008	4,958	4,957	4,910	4,240
Contract stations and branches	4,397	4,297	4,294	4,087	3,965
Community post offices	1,703	1,693	1,663	1,714	1,721
Total	11,108	10,948	10,914	10,711	9,926
Grand total	40,067	40,031	40,117	40,030	39,270

* Complement data have been revised to conform with current method of counting career on-rolls employees using On-Rolls and Paid Employees statistics data base.



ACHIEVEMENTS IN FISCAL YEAR 1990

HIGHER CUSTOMER SATISFACTION

- Developed External Delivery Measurement Systems
- Developed New Index of Customer Satisfaction
- Ranked First Among Federal Agencies in Roper Poll

COSTS BELOW INFLATION

- Costs Increased 2% Less Than Inflation
- Increased Productivity by 3.1%
- Reduced Estimated Deficit by \$700 million
- Accelerated Automation Program

RENEWED EMPLOYEE COMMITMENT

- Continued Quality of Work Life Process with 6,500 Work Teams
- Became Corporate Sponsor for 1992 Olympic Games
- Developed Satellite Training Network



OFFICIAL OLYMPIC SPONSOR

ANNUAL REPORT OF THE POSTMASTER GENERAL
FISCAL YEAR 1991

*"... we never
sleep, we're
always on, we
deliver..."*



WE'RE ON, 24 HOURS A DAY

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FINANCIAL AND OPERATING HIGHLIGHTS

	Year Ended Sept. 30, 1991	Year Ended Sept. 30, 1990	Year Ended Sept. 30, 1989	Year Ended Sept. 30, 1988	Year Ended Sept. 30, 1987
Pieces of mail (millions)	165,851	166,301	161,603	160,954**	153,931
Percent change	-0.3	2.9	0.4	4.6	4.4
(dollars in millions)					
Revenue from operations	\$ 43,323	\$ 39,201	\$ 37,979	\$ 35,036	\$ 31,528
Percent change	10.5	3.2	8.4	11.1	4.7
Public service appropriation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue forgone appropriation*	\$ 562	\$ 453	\$ 436	\$ 517	\$ 650
Percent change	24.1	3.9	-15.6	-20.5	-9.2
Total operating expenses	\$ 43,291	\$ 40,490	\$ 38,371	\$ 36,119	\$ 32,520
Percent change	6.9	5.5	6.2	11.1	5.9
Operating income (loss), net of interest	\$ 432	(\$ 874)	\$ 61	(\$ 597)	(\$ 223)
		-	-	-	-
		(\$ 874)	\$ 61	(\$ 597)	(\$ 223)
		\$ 9,421	\$ 8,833	\$ 7,801	\$ 6,628
		6.7	13.2	17.7	18.6
		(\$ 1,278)	(\$ 402)	(\$ 460)	\$ 138

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36 USC 380

(in units indicated)

248.2	245.7	243.5	241.3
1.0	1.0	0.9	0.9
670	658	661**	638
1.8	-0.5	3.6	3.6
\$ 157.96	\$ 154.55	\$ 143.89	\$ 130.67
2.2	7.4	10.1	3.8
24.35¢	23.74¢	22.44¢**	21.13¢
2.6	5.8	6.2	1.4
23.57¢	23.50¢	21.77¢**	20.48¢
0.3	7.9	6.3	0.2
(0.53¢)	0.04¢	(0.37¢)**	(0.14¢)
760,668	777,715	779,083	765,338
-2.2	-0.2	1.8	2.7



Our 1991 Annual Report reviews the Postal Service's efforts to provide better, more efficient service to its customers. I hope you will find it of interest.

Anthony M. Frank

Anthony M. Frank
Postmaster General

accordance with Congressional statute. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

Volume data for 1987 is not comparable.

*** 1987-1990 data recast to reflect 1990 census information.

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WE'RE ON, 24 HOURS A DAY

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Percent change	24.1	3.9	-15.6	-20.5	-9.2
Total operating expenses	\$ 43,291	\$ 40,490	\$ 38,371	\$ 36,119	\$ 32,520
Percent change	6.9	5.5	6.2	11.1	5.9
Operating income (loss), net of interest	\$ 432	(\$ 874)	\$ 61	(\$ 597)	(\$ 223)
Extraordinary retroactive assessment	(\$ 1,901)	-	-	-	-
Net (loss) income	(\$ 1,469)	(\$ 874)	\$ 61	(\$ 597)	(\$ 223)
Fixed assets (net of depreciation)	\$ 10,681	\$ 9,421	\$ 8,833	\$ 7,801	\$ 6,628
Percent change	13.4	6.7	13.2	17.7	18.6
(Deficiency) equity	(\$ 2,747)	(\$ 1,278)	(\$ 402)	(\$ 460)	\$ 138
(in units indicated)					
U.S. resident population January 1					
estimate (in millions)***	250.9	248.2	245.7	243.5	241.3
Percent change	1.1	1.0	1.0	0.9	0.9
Pieces of mail per capita	661	670	658	661**	638
Percent change	-1.3	1.8	-0.5	3.6	3.6
Operating revenue per capita	\$ 172.68	\$ 157.96	\$ 154.55	\$ 143.89	\$ 130.67
Percent change	9.3	2.2	7.4	10.1	3.8
Operating expense per piece of mail	26.10¢	24.35¢	23.74¢	22.44¢**	21.13¢
Percent change	7.2	2.6	5.8	6.2	1.4
Operating revenue per piece of mail	26.12¢	23.57¢	23.50¢	21.77¢**	20.48¢
Percent change	10.8	0.3	7.9	6.3	0.2
Net (loss) income per piece of mail	(0.89¢)	(0.53¢)	0.04¢	(0.37¢)**	(0.14¢)
Career employees	748,961	760,668	777,715	779,083	765,338
Percent change	-1.5	-2.2	-0.2	1.8	2.7

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate in accordance with Congressional statute. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

** Beginning in Fiscal Year 1988, volume data was recast to report Penalty and Franked mail within their classes. Volume data for 1987 is not comparable.

*** 1987-1990 data recast to reflect 1990 census information.

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During Fiscal Year 1991, I had the honor of serving as Postmaster General as the Postal Service observed its 20th birthday on July 1. I therefore benefited from the efforts of the seven Postmasters General and millions of postal people who preceded me in establishing this businesslike public service owned by and operated for the American people. Throughout our nation on that 20th birthday, the men and women of the Postal Service had a brief respite from the rigors of delivering the country's mail to reflect — along with their neighbors and fellow citizens they serve — on the progress we have made during our first two decades. Then we went back to work on the difficult challenge of maintaining our commitments to quality service and cost containment, the two principal components of what we sought to make a “Year of Balance.”

Balancing cost containment and service quality is important because quality is a way of life for companies that wish to remain competitive in the 1990s. In Fiscal Year 1991, the Postal Service took the first steps to develop a total quality process. We began an examination of our cultural values and our customer relationships.

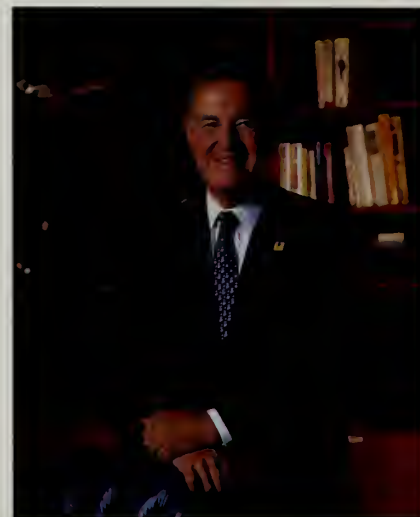
We defined quality as satisfying the expectations of our customers the first time, every time.

We recognize that doing things right the first time is wholly consistent with our efforts to maintain balance between costs and service. Mistakes cost dollars and reduce customer satisfaction. By year's-end, we made progress in quality improvement. And, we saw measurable success in two independent measures of service quality:

- First-Class delivery performance, as independently measured by the accounting firm Price Waterhouse against published delivery standards for overnight, second-day and third-day geographic areas, indicated that, on average, 8 in 10 letters arrive on time. In the fourth quarter of the year, the first for which prior year data exist, overnight delivery performance improved to 83 percent, up 2 percent from the previous year.
- Overall customer satisfaction with the Postal Service also remained high in the fourth quarter of Fiscal Year 1991. After evaluating independent surveys incorporating the views of 180,000 Americans on 37 aspects of service quality (ranging from courtesy to complaint handling and the performance of window clerks and letter carriers), Opinion Research Corporation noted that 85 percent of the American households believe the service they receive from us is excellent, very good or good.

Cost containment efforts, of paramount interest to our customers, included two important successes:

- Our automation program was accelerated, and its benefits are readily apparent. We reduced career employment by almost 39,000 from our peak in May 1989, resulting in a savings



*Postmaster
General
Anthony M.
Frank*

of \$1.1 billion in wages and benefits alone. By 1995, an additional 45,000 career positions will be eliminated and the annual savings from automation will grow to approximately \$4.5 billion. During the year, I had the opportunity to accept Xplor International's "Innovator of the Year" award on behalf of the Postal Service for our technological and financial commitment to automation. Xplor International is an organization that provides forums, programs and services to the electronic document systems community. Xplor saluted us for imaginative applications of new technology and estimated that its member firms will save more than \$1 billion annually — up to 21 percent of their postage costs — because of ZIP+4 and barcoding incentives.

- Our labor contracts, both negotiated and arbitrated, were responsible and fair agreements consistent with customer interest in moderate wage settlements. The new agreements, some covering four years for the first time, met our goal of fairness to both customers and employees. A feature of some, but not all, of the new contracts is a Striving for Excellence Together (SET) Program, which will award covered workers with lump-sum cash payments when measurements of customer satisfaction and financial performance improve. The SET program is an excellent example of balancing costs and service, linked to higher employee commitment.

These successes were counterbalanced by three unplanned developments that made keeping our financial balance exceedingly difficult: recession, reconciliation of the federal budget, and the rate case.

- The economic recession hurt the nation's business. Although it is impossible to estimate the precise impact on mail volume, clearly the poor economic conditions, along with the rate increases, contributed to our first decline in volume in 15 years. Volume was off 450 million pieces during 1991. This is a reduction of only 0.3 percent, but nonetheless a reduction! The last time volume failed to grow was in 1975, when another recession — arising from the oil shocks of the period — reduced volume compared to the previous year by more than 832 million pieces, or 0.9 percent.

- After our budget was established, we were again directed by the Congress to absorb additional expenses in an effort to reduce the federal budget deficit. As a result of the Omnibus Budget Reconciliation Act of 1990 (OBRA), approximately \$2.4 billion of additional costs for retiree health and cost-of-living allowance (COLA) benefits were transferred to the Postal Service for Fiscal Year 1991, including \$1.9 billion that was retroactive to 1971. The OBRA's of 1985, 1987, 1989, and 1990 may impact the costs of future years by as much as \$9 billion through Fiscal Year 1995.

- The rate case became a 20-month marathon that culminated after the fiscal year ended in the rejection of the proposed 30-cent stamp. The combined effect of the recession and the Postal Rate Commission's recommended 29-cent First-Class rate and higher-than-requested increases in third-class rates contributed to a decline in mail volume, resulting in a revenue shortfall of \$984 million less than planned.

These developments contributed to our operating income, net of interest, of \$432 million,

before the OBRA of 1990 retroactive assessment of \$1.9 billion changed this result to a net loss of \$1.5 billion. This net loss should not obscure the progress we made toward our corporate strategic goals. As depicted in the pages of this annual report, the dedicated men and women of the Postal Service worked diligently — often behind the scenes — to provide our customers with quality service at reasonable rates.

The purpose of this annual report, then, is to provide balance — to highlight progress and acknowledge our financial results — while we underscore that the strength of our nation's postal system is drawn from the around-the-clock efforts its people make to move the mail.

No recounting of Fiscal Year 1991 would be complete if I failed to call attention to three unprecedented efforts mounted by the Postal Service and its people:

- We completed one of the largest military mail initiatives in Postal Service history during Operation Desert Shield/Desert



Postmaster General Anthony M. Frank and President George Bush unveil stamp honoring Operation Desert Shield/Desert Storm troops.

Storm. Throughout this conflict, we helped keep open the links between our troops and their families and friends throughout the United States by building a massive international mail processing system almost from scratch. American servicemen and servicewomen were granted free mailing privileges to write home, and they received more than 60 million pounds of morale-sustaining mail, most of it parcels. Prior to the conflict, average daily mail volume to the region was 2,000 pounds. That swelled to an average daily volume of 275,000 pounds during the operation, with a peak of 600,000 pounds per day during the holidays.

Our service in the Gulf War had a second dimension, as more than 2,800 postal employees were activated during the crisis. One member of our postal family was killed in the conflict. Our troops' homecomings were celebrated in two ways. Post offices throughout the country flew banners bearing a symbolic yellow ribbon and the simple message "Thank You. Welcome Home." Four hundred million commemorative stamps were issued, bearing the image of the Southwest Asia Service Medal awarded to all members of the U.S. Armed Forces who served in Operation Desert Shield/Desert Storm. We were honored that President George Bush participated in the issuance of the stamp.

- We also became immersed in a nationwide effort to promote literacy among youth and adults. A reading America is a strong and vibrant America, and literate citizens are essential to the well-being of the Postal Service and its business customers.

We piloted adult literacy programs in Greensboro, NC, and expect these efforts to expand

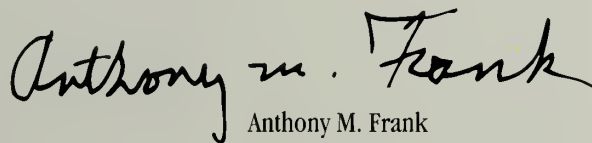
during the next year. We also worked with numerous literacy advocacy groups to promote reading among our nation's youth. A highly successful expansion of the in-school postal system concept, called "Wee Deliver," involved students and teachers in more than 6,000 of our nation's elementary schools.

- We continued to realize our objectives of pride, patriotism, partnership and profit through activities associated with our sponsorship of the Winter and Summer Olympic Games. Our sponsorship stands as an example of accepting reasonable risks to increase our Express Mail, Priority Mail and philatelic net revenues in order to take pressure off rates. It has been a key motivator of our people as well.

By year's-end, we had realized net revenue from the Olympic sponsorship of approximately \$20 million. The earnings are almost 40 percent of our three-year Olympic sponsorship net revenue goal of \$55 million.

In July, thousands of postal employees had an opportunity to "Touch the Olympic Torch" because we sponsored the official torch run from Pikes Peak, CO, to Los Angeles, CA, to open the Summer Olympic Festival. Employees who participated were excited and proud that the U.S. Postal Service is associated with the excellence that the Olympic Games symbolize. As the games unfold in 1992, we expect these beneficial feelings and experiences to spread to all employees nationwide.

In summary, Fiscal Year 1991 was a year of balance, although not the specific balance we sought and expected. Factors outside our control prevented us from achieving all our financial goals; factors within our control allowed us to make significant progress toward our strategic goals for increased customer satisfaction, measured independently, keeping increases in our costs below inflation, and greater employee commitment. Throughout the year, the men and women of the Postal Service worked diligently around the clock to meet their responsibilities to the American people. We delivered.



Anthony M. Frank

Postmaster General of the United States

P.S.: On January 7, 1992, I announced my decision to resign as Postmaster General and return to the private sector. The last four years have been productive and satisfying ones, and I want to thank every employee for the day-in, day-out dedication that moved both the mail and the Postal Service forward. It is such spirit and drive that will continue the progress we have made to serve our customers and our nation.

12:13 AM



*"Automation
saves jobs and
helps the Postal
Service operate
more efficiently
and keeps us
competitive."*

*Tess Antes
Mail Processor
Long Beach, CA*



STATE-OF-THE-ART TECHNOLOGY FOR A SERVICE THAT NEVER SLEEPS

Around the clock, dedicated postal employees work to collect, process and deliver the nation's mail. At midnight, when most Americans are home asleep, more than 200,000 mail processing employees are just beginning their work, transforming an ocean of raw mail into orderly flowing channels of letters, cards, parcels, advertising, magazines and newspapers. Employees have a little more than five hours to sort the mail by ZIP Code before routing it to its delivery destination. Operational efficiency is critical.

To help achieve greater efficiency and lower operating costs, the Postal Service invested more than \$300 million for capital equipment to automate its mail processing operations during the fiscal year. In Fiscal Year 1991, it continued to make significant progress in the transition from manual and mechanized mail processing operations to automation. Since 1987, more than 2,000 optical character readers, bar code sorters and other pieces of equipment have been installed at postal facilities throughout the country to increase the efficiency of letter mail processing. The Postal Service's deployment of automation will continue over the next few years. Approximately 12,000 pieces of automated sorting equipment will be deployed by the end of 1995.

DOING MORE WITH LESS

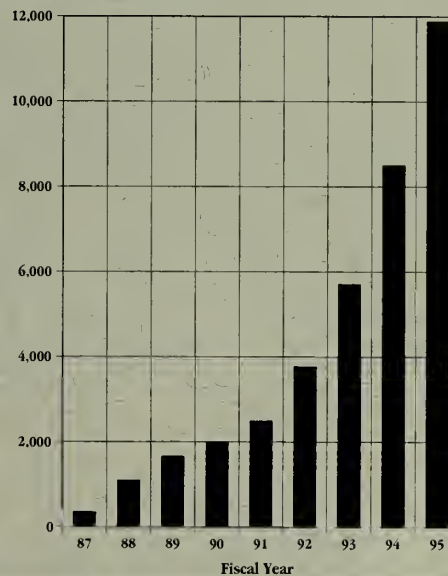
With approximately 20 percent of its automated equipment in place, the Postal Service has reduced its work force through attrition by almost 39,000 positions since May of 1989, while still processing 165.9 billion pieces of mail during the fiscal year. If these 39,000 positions had been on the rolls during Fiscal Year 1991, Postal Service expenses would have been \$1.1 billion higher. By 1995, as a result of automation, the postal work force will be reduced by another 45,000 career positions. The Postal Service's planned cumulative productivity improvement through 1995 is 4.8 percent. Cumulative productivity two years into the Postal Service's six-year Strategic Plan remained slightly ahead of plan at the end of Fiscal Year 1991.

Throughout the year, progress continued in advanced research leading to new equipment, improved address readability by machines, and facility designs to meet the needs of the Postal Service and its customers in the 1990s and into the 21st century.

Automated equipment like the mail processing barcode sorter (in photo at left) is revolutionizing operations in post offices across the country by sorting prebarcoded mail more efficiently. In Fiscal Year 1991, the Postal Service completed the installation of 1,369 mail processing barcode sorters.

CUMULATIVE AUTOMATION DEPLOYMENT

(PIECES OF EQUIPMENT)



The Postal Service's automation program involves a massive deployment of new equipment. By the end of 1995, approximately 12,000 pieces of automated equipment will have been deployed.

1:55 AM



"Time is money. As a ramp clerk, if I can save the Postal Service money by making sure that mail is being flown in on time, then the Postal Service and our customers are winners."

*Jeff Nendabl
Ramp Clerk
St. Paul, MN*

LINKING ALL POINTS, NEAR AND FAR

Each day, postal employees face a carefully calculated series of dispatch and transportation schedule deadlines as they work to transport an average 550 million pieces of mail to their destinations. Many of those deadlines fall in the gloom of night, especially those for meeting next-day delivery commitments for Express Mail.

In Fiscal Year 1991, the Postal Service stepped up its emphasis on improving domestic and international Express Mail service. After months of deliberation and open competition to determine the most advantageous location, the Postal Service selected Indianapolis, IN, as the site for the National Eagle Air Network hub. Serving 33 major metropolitan areas through the hub, the network is designed to enhance the consistency of on-time delivery of Express Mail and Priority Mail letters and packages. The National Eagle Air Network hub is expected to be in service by early 1993.

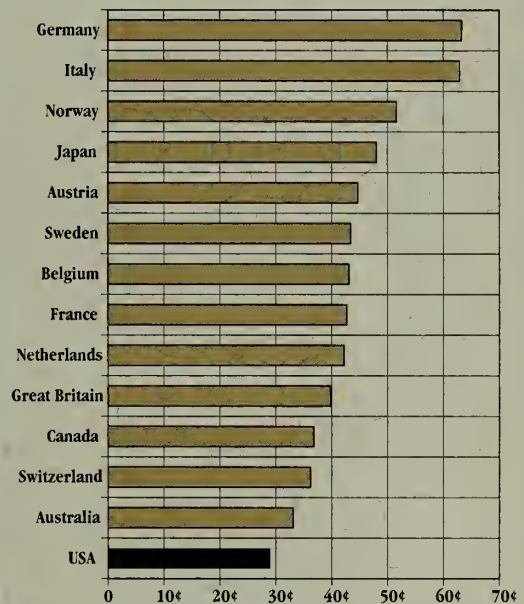
TRACKING THE MAIL

To improve customer convenience, the Postal Service awarded a five-year contract in Fiscal Year 1991 to deploy a Comprehensive Tracking and Tracing System (CTT) so that customers can learn the status of their Express Mail shipments by calling a 24-hour toll-free number. Tested in 10 cities, CTT currently is being deployed nationwide and will be fully operational in 16,000 postal retail facilities at the beginning of 1992.

To generate more revenue and help keep postage rates down, the Postal Service has developed revenue enhancement plans for Express Mail, Priority Mail, International Mail, and philatelic and retail programs.

During 1991, the Postal Service also developed its first comprehensive international mail business plan and expanded the International Express Mail Service network to 128 countries worldwide, including cities in Germany, the former Soviet Union, Indonesia and Turkey. Called the WORLDPOST Business Plan, it has three major objectives: to meet customer needs in identified international markets, to demonstrate the price and service capabilities of the Postal Service against its competitors, and to increase the annual corporate revenue contribution from international mail service.

COMPARISON OF FIRST-CLASS RATES



At 29 cents, the U.S. rate remains the best value among these industrialized nations. The chart is based on foreign exchange rates as published in the Washington Post, Dec. 13, 1991.

A major 1991 air transportation-related development for the Postal Service was the selection of Indianapolis, IN, as the site for the National Eagle Air Network hub.

4:12 AM



*"Mail volume is the life-blood
of the Postal Service. Without
it, we cannot survive."*

*William D. Brown, Jr.
Motor Vehicle Driver
Long Beach, CA*

FEELING THE PINCH OF A TOUGH ECONOMY

The dispatch dock is the best place to witness the massive amounts of mail that flow through mail processing facilities. Containers are loaded into a steady stream of trucks traveling to outlying delivery offices. Yet, even on congested docks, employees could tell mail volume was down in 1991, spelling a tough

financial year for the Postal Service, as it was for every company affected by the recession.

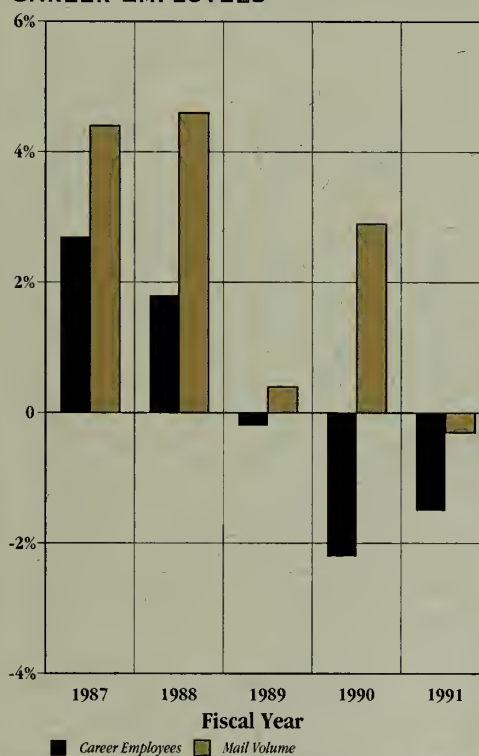
The Postal Service handled 165.9 billion pieces of mail, about 450 million pieces less than the year before, the first decline in mail volume since 1975. Third-class volume — the second largest category of mail — declined by 1.3 billion pieces as many business mailers, reacting to the 1991 rate increase and the recession, made fewer, more selective mailings. However, International Express Mail volume grew vigorously, recording a gain of 16 percent over 1990.

PROFIT BECOMES LOSS

The Postal Service realized an operating income, net of interest, of \$432 million. However, the Postal Service recorded a \$1.9 billion one-time accounting adjustment to reflect a requirement imposed by the Omnibus Budget Reconciliation Act of 1990 (OBRA) to retroactively assume financial responsibility of annuitants' cost-of-living allowances and health benefits. This one-time adjustment of \$1.9 billion changed the \$432 million income to a net loss of \$1.5 billion.

Total revenues of \$44.2 billion were \$984 million, or 2.2 percent, less than planned due to the effects of the recession and postal rates significantly different than planned. Total expenses of \$43.8 billion were \$481 million, or 1.1 percent, less than planned. With a 30-cent stamp, rates likely would have remained stable until 1995. With the 29-cent stamp, another rate increase may be necessary in early 1994. As a result of the difficulties experienced with the 1990 rate case, the Postal Service's Board of Governors commissioned an independent study of the rate-making process and is using this report to work with the Postal Rate Commission to examine ways to improve the process.

COMPARISON OF ANNUAL PERCENTAGE CHANGE FOR MAIL VOLUME AND CAREER EMPLOYEES



Automation is allowing the Postal Service to process mail with fewer employees. Mail volume declined by 0.3 percent, and the number of career employees dropped by 1.5 percent in Fiscal Year 1991.

During Fiscal Year 1991, the Postal Service continued testing automated and mechanized methods of handling mail dispatched from and received at the back dock of mail processing facilities.

PEOPLE SERVING PEOPLE

As the sun comes up, mail destined for local delivery arrives at post offices around the country. While many Americans are just hitting the snooze button, letter carriers are hitting the time clock to begin their day by sorting their mail into delivery sequence. Meanwhile, at mail processing facilities, dawn signals the end of the work day for thousands of other postal employees who have worked through the night preparing the mail for delivery.



Fiscal Year 1991 was the first full year under external measurement systems. In quarter four, all three categories of First-Class Mail showed improvements over the previous year.

on automated equipment, this time will be cut in half.

GOING THE EXTRA MILE

Because of a national agreement reached in 1991 between the Postal Service and the National Rural Letter Carriers' Association, rural letter carriers are now driving as much as a mile to deliver packages to a customer's door step. Previously, rural carriers were required to make a reasonable effort to attract the customer to the mailbox by sounding the horn of their vehicles when a parcel was too large for the mailbox; only Express Mail items or mail requiring a signature were delivered in person. With this change, customers can now sign a waiver requesting parcels be left at the door in their absence. The change means half a million parcels and other items will be delivered to front doors daily by 43,000 rural letter carriers on mail routes covering 2.6 million miles, with considerable enhancement to customer convenience.

The Postal Service's charter with the American people calls for quality service in delivering an average 550 million pieces of mail six days a week to 120 million business and residential addresses. To reach every mailbox in every community in every state in the country, the Postal Service employs about 232,000 city and 43,000 rural letter carriers.

In 1991, some business mailers began applying Delivery Point Bar Codes to their mail, coding that identifies specific addresses and delivery points that will permit automated equipment to sort letters into walk sequence for delivery.

Advances in technology, customer barcoding and the Delivery Point Bar Code will reduce the time and cost of preparing the mail for delivery. For example, city carriers currently spend an average of four hours in the office. With finer mail sortation

The total number of delivery points served by postal employees on city, rural and highway contract routes increased to 1.1 million during Fiscal Year 1991, an increase of 1.5 percent from the previous fiscal year.

7:10 AM



*"Rural letter carriers nation-
wide go that extra mile
every day to make sure we
deliver for our customers
because ... we care!"*

*Jan Sorenson
Rural Carrier
Maple Grove, MN*

8:00 AM



*"Our sponsorship
of the Olympics
makes me feel
good ... and real
proud ... to be a
Postal Service
employee. I
think that people
who feel good
about themselves
in their job do a
better job while
they're on the
job."*

*Greta Cofield
Postmaster
Framingham, MA*



BREAKING NEW GROUND WHILE SUPPORTING AMERICA'S OLYMPIANS

Raising the flag is a daily activity deeply rooted in the history and tradition of the Postal Service. It identifies the post office as a businesslike public service owned by the American people. It is a symbol of the Postal Service's pride in America, and its two-centuries-old commitment to serving the needs of its customers.

Postal retail operations are huge. Some 40,000 post offices, stations and branches serve the retail needs of seven million customers on an average day, as employees serve customers by selling stamps, weighing and postmarking packages, accepting mail and providing other postal and governmental products and services. To meet America's postage needs in 1991, the Postal Service printed more than 47 billion stamps and stationery products. More than 16 million American businesses and individuals rely on the security and convenience of post office boxes for receipt of their mail.

OLYMPIC SPONSORSHIP

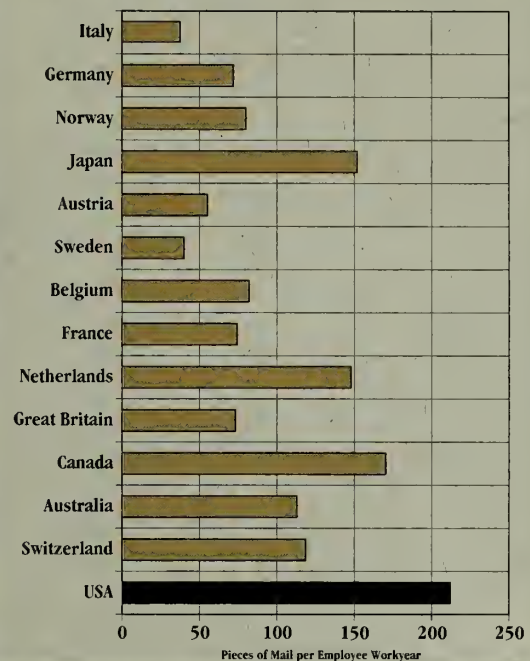
In 1991, the Postal Service began raising another flag over post offices, a flag of innovation and creative marketing as a sponsor of the 1992 Olympic Games. The Postal Service and 31 partner postal administrations around the world are the "Official Expedited and Package Couriers" for both the Winter Games in Albertville, France, and the Summer Games in Barcelona, Spain.

Affiliation with the Olympics has enhanced employee morale and inspired and rewarded excellence in the workplace. More than 70,000 employees have been recognized for outstanding performance through Olympic-related programs. By fiscal year's-end, the Postal Service had realized a net profit of approximately \$20 million, well on its way to achieving the Olympic sponsorship revenue goal of \$55 million over three years, which will help keep postage rates down.

Olympic sponsorship also reflects the Postal Service's commitment to community support. During the 1992 Games, USA/Olympic flags will fly above more than 34,000 postal facilities, rallying the nation in support of its finest athletes.

PRODUCTIVITY

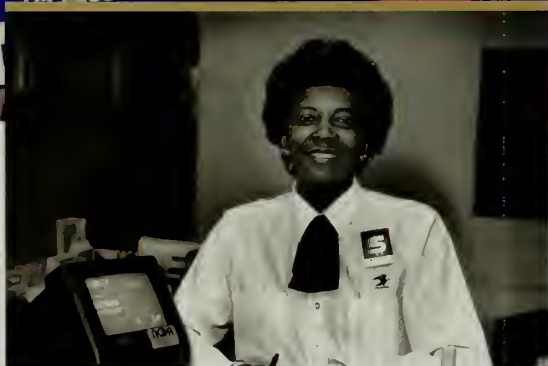
(PIECES IN THOUSANDS)



The United States has the world's highest postal productivity rate among the industrialized nations of the world. Reports from foreign administrations are not always available for the same calendar year or fiscal year providing full data.

Olympic sponsorship supports the Postal Service's traditional strategic goals of quality service, provided at reasonable rates by dedicated employees, to mailing customers here in the United States and overseas. During the 1992 Games, USA/Olympic flags (in photo at left) will fly above more than 34,000 postal facilities in support of America's finest athletes.

9:08 AM



"We want our customers to know we are committed to providing them quick, quality service."

*Linda Ruff
Finance Clerk
Greensboro, NC*

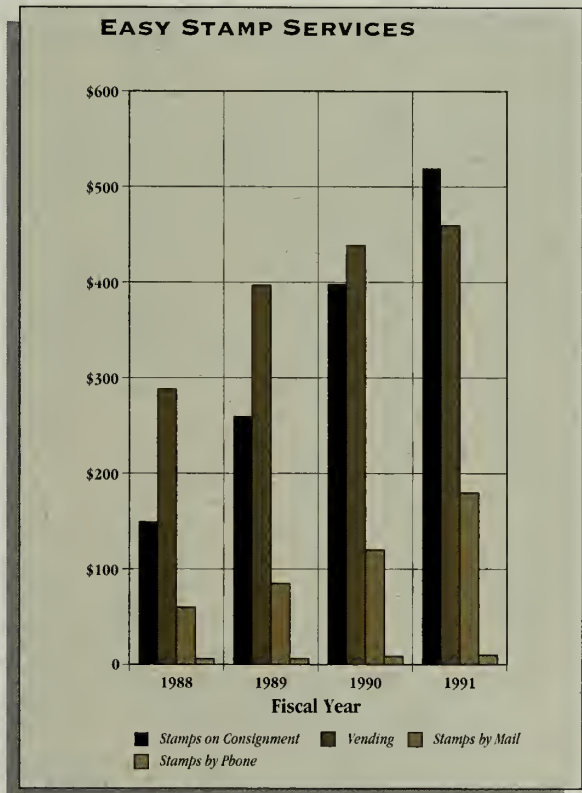
EXPLORING WAYS TO IMPROVE CUSTOMER CONVENIENCE

The Postal Service also explored a variety of ways to better serve retail customers in 1991. One of the creative innovations was a pilot test initiated in the Greensboro, NC, Field Division to reduce waiting time in postal lobbies by serving customers in five minutes or less. More than 700 post offices in the Greensboro Division participated in the five-minute test, which proved to be a success.

"Project Pride," a lobby improvement program, was developed by the Westchester, NY, Field Division to create an attractive and professional environment for customers and postal employees. The Postal Service also established a policy to acknowledge customer complaints within 24 hours, and improve retail transactions by encouraging employees to Greet, Inquire, Suggest, and Thank their customers under the "G.I.S.T. of Quality Service" Program.

Stamp purchasing convenience received continued emphasis in 1991. Responding to the popularity and accessibility of automatic teller machines (ATMs), the Postal Service issued the Statue of Liberty Torch stamp, a self-adhesive paper stamp, for dispensing through ATMs. By the end of the fiscal year, customers were able to buy stamps at 400 ATMs through three participating banks in several cities. ATM services were also available at 21 postal facilities by the end of the fiscal year.

To expand customer convenience and satisfaction, the Postal Service opened new retail facilities called "Postal Stores of the Future." The retail stores offer value-added service and generate new revenue by combining traditional services with information technology in a business setting. To date, 21 Postal Stores of the Future are open for business across the country.



Postal customers purchased \$1.17 billion in stamps using convenient Easy Stamp Services.

Serving retail customers in five minutes or less (as shown in photo at left) was tested successfully in 700 post offices in 1991. Plans call for expansion of reduced lobby waiting for customers.

10:30 AM



*"We have the best value overnight
with Express Mail and Priority
Mail, if we provide good service."*

Sylvia Alvarez
Letter Carrier
San Antonio, TX

SERVICES TO MEET CUSTOMERS' NEEDS

The pace in the business world quickened in 1991 for expedited mail service. Fiscal Year 1991 saw greater emphasis on the service and value of Priority Mail and its special market niche of two-day delivery. During the fiscal year, partnerships with major catalog merchandising firms L.L. Bean, Current, Inc., Park Seed Company and others led the way in promoting Priority Mail. Airports in Dulles, VA, and San Diego, CA, were added to the Express Mail Eagle Network. In addition, the network for next-day service was expanded to 11 new cities, for a total of 47 major markets served.

A PLAN FOR SUCCESS . . .

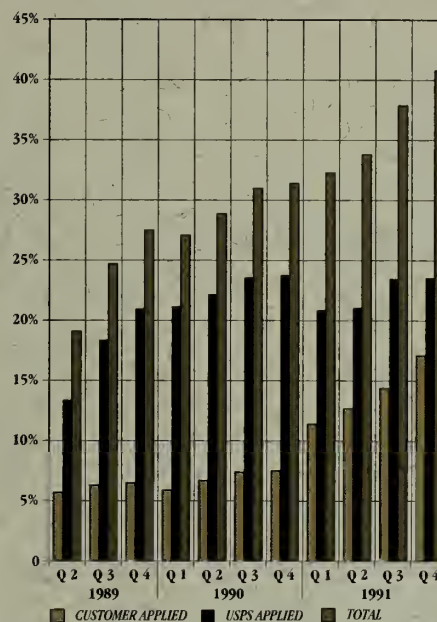
Despite available alternatives, companies still depend on First-Class Mail to balance timeliness with cost for most of their written communications. To help customers and the Postal Service achieve the lowest possible cost, the Corporate Automation Plan calls for all mail to carry bar codes, a series of tiny vertical lines on the face of an envelope that represent the address. Under the plan, 40 percent of mail will be prebarcoded by business customers, 40 percent by postal automated equipment, and no more than 20 percent by the Remote Bar Coding System (RBCS), a video data entry technology developed to automate hand-addressed letter mail and other pieces that cannot be read by automated equipment. In 1991, RBCS pilot sites became operational in Nassau County, NY, and Louisville, KY. An additional 25 sites will go on-line in 1992.

The economics of barcoding are compelling: it costs the Postal Service \$42 to manually sort 1,000 pieces of mail, \$19 per thousand using mechanization, but only \$3 per thousand using automated equipment.

. . . AND SUCCESS FOR THE PLAN

In Fiscal Year 1991, the Postal Service made significant progress with its barcoding strategy, a key indicator of the pace of automation. Fifty-five percent of all letter mail processing was performed on postal automated equipment, compared to 49 percent in 1990. More than 41 percent of all cards and letters carried bar codes by the end of the fiscal year, with the percentage projected to grow to 61 percent by the end of 1992.

BARCODED LETTER MAIL



The volume of letters and cards carrying bar codes grew in 1991 to more than 41 percent of all letter-size mail.

The Postal Service opened 113,000 new Express Mail corporate accounts and generated more than \$139 million in revenue during Fiscal Year 1991.

EFFICIENCY THROUGH CUSTOMER WORKSHARING DISCOUNTS

To help customers lower their mailing costs through prebarcoding discounts and other automation-related solutions to their mailing needs, the Postal Service continued testing the Postal Business Center concept in 1991. Ten sites were established during the fiscal year: Buffalo and Westchester County, NY; Greensboro, NC; Fairfax, VA; Houston, TX; Orlando, FL; Lansing, MI; Madison, WI; and Oakland and San Diego, CA. More are planned in 1992. Initiated in the USPS' Western Region more than three

years ago, business centers are geared to handle the queries and problems of local businesses that need postal assistance.

A key task of the centers is to help small business mailers tap into the widest range of customer discounts ever offered by the Postal Service for automation and worksharing. Opportunities include prebarcoding, dropshipping and saturation mailing.

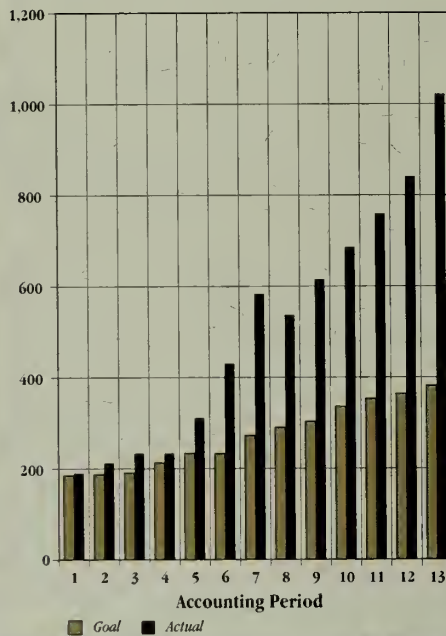
Approximately 105 billion of the 165.9 billion pieces of mail processed during the fiscal year involved worksharing efforts between the Postal Service and mailers. Filings for additional discounts were made with the Postal Rate Commission for barcoded non-letter-sized mail (called "flats") and palletized second-class mailings. More than 10 billion pieces of mail received automation worksharing discounts in Fiscal Year 1991.

WORKING WITH CUSTOMERS

Based on extensive talks with mailers, a number of automation requirements were changed to

Postal Business Centers (in photo at right) help business customers get questions answered and problems solved concerning automation, ZIP + 4, advertising by mail, and the full range of postal services.

**CUMULATIVE DISCOUNTED
PREBARCODED MAIL**



Customer commitment to automation produced a 500 percent increase in discounted ZIP+4 prebarcoded First- and third-class mail, far exceeding the goals for the year.

better reflect customer needs and capabilities. To coordinate these efforts, a new Customer and Automation Service Department was created to provide better customer service to small- and medium-size business customers, and to provide all business mailers with guidance on the Postal Service's automation program and potential postage savings.

Through a variety of customer outreach programs, such as National Postal Forums, Postal Customer Councils and the Mailers' Technical Advisory Committee, the Postal Service provided educational and training programs for more than 15,000 business mailers during Fiscal Year 1991. An aggressive advertising and promotion campaign aimed at every business and household in the country was launched to build awareness of the benefits of completely and correctly addressing mail.

12:05 PM



*"Automation is
good for the
Postal Service ...
and good for our
business cus-
tomers because
we both lower
our costs."*

*Charlene Sullivan
Strategic Data Analyst
St. Paul, MN*



1:12 PM



*"I think the 'Wee Deliver' Program
is a wonderful idea . . . It shows the
Postal Service cares about
fighting illiteracy"*

*Emily Brown
Window Clerk
Siler City, NC*

DELIVERING MORE THAN MAIL

The Postal Service is universal, having a presence in virtually every community in the country. Its employees are not just public servants, they're good neighbors, too, involved members of their communities.

During National Volunteer Week (April 21-28), the Postal Service recognized 10,000 employees for their donations of time and effort to support their communities. Postal people were saluted for a variety of activities ranging from helping residents of nursing homes, to teaching orphaned children, to overseeing recycling programs in the community. The Postal Service supports community service programs such as Carrier Alert, where letter carriers monitor the mailboxes of elderly customers for unusual accumulations of mail that can indicate illness or injury. During 1991, postal employees donated a record \$32 million to the Combined Federal Campaign, the federal government's unified charity contribution system.

The San Diego Housing Commission presented an award to the Postal Service for its unique role in establishing an overnight shelter for homeless women.

During the war in the Persian Gulf, Americans flooded post offices with letters and packages of love and support to the troops overseas. Mail volume to Saudi Arabia grew from about 2,000 pounds per day before the war began to 600,000 pounds a day during December 1990.

The surge in mail volume posed logistical challenges to postal operations all across the country. Facilities in Dallas, Chicago, New York, San Francisco and Dulles, VA — the five processing points for dispatching mail to Operation Desert Shield/Desert Storm — expanded their shifts and operations. The automation readability team in Fayetteville, NC, designed and printed prebarcoded, machine-readable envelopes and gave them to thousands of families in the community to help speed mail to their loved ones overseas. The Airport Mail Facility at JFK International Airport in New York was cited by General Norman Schwarzkopf, commander in chief in the Persian Gulf, for "the outstanding work you are doing in handling the monumental flow of mail to our troops in the Middle East."

The Postal Service also continued to encourage literacy. Through a joint effort with community colleges, Greensboro, NC, postal officials offered building space for adult reading and writing classes. More than 6,000 elementary schools are taking part in the USPS' "Wee Deliver" Program, where children build reading and writing skills by operating an in-school post office.



Letters from the Sand: The Letters of Desert Storm and Other Wars, a collection of letters, photographs and stamp reproductions from the Persian Gulf war and other wars, was published in Fiscal Year 1991.

The Postal Service's nationwide campaign to help "Stamp Out Illiteracy" gained momentum in Fiscal Year 1991 as more than 6,000 elementary schools agreed to participate in the "Wee Deliver" Program. A postal employee (in photo at left) talks to a group of students about the importance of good customer service.

2:20 PM

*"Nothing makes
me happier
than a smiling
customer."*

*Edward Mikesb
Letter Carrier
St. Paul, MN*



SERVICE AND SATISFACTION FROM THE CUSTOMER'S POINT OF VIEW

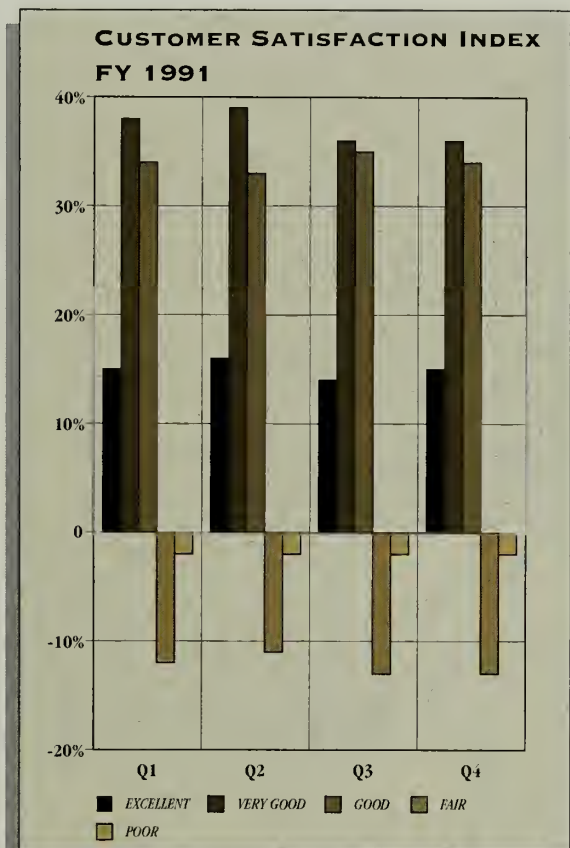
No piece of mail, whether an advertisement, billing statement or remittance, is as important as a letter from home. For years, mail has been high on American's list of favorite things to receive. The tremendous outpouring of support America showed to Persian Gulf servicemen and servicewomen — 60 million pounds of heartfelt cards, letters and packages — says mail is more welcome today than ever.

However, until 1990, the Postal Service did not have an independent system to evaluate how well it was doing in serving customer needs or how frequently the organization met its on-time delivery commitments for First-Class Mail. In Fiscal Year 1991, the Postal Service completed its first year of viewing service from the customer's point of view, and using the data to improve the quality of its service.

HOW DID WE DO?

The External First-Class measurement system (EXFC) independently tracks service performance from deposit to delivery. The accounting firm of Price Waterhouse mailed 1.6 million test pieces to and from 86 cities around the country during the fiscal year and evaluated the timeliness of delivery. EXFC indicated that overnight-committed mail met delivery standards more than 8 out of 10 times, 2 percent better than last year and heading toward the goal of 95 percent on-time delivery.

Opinion Research Corporation was hired to develop a Customer Satisfaction Index (CSI). Every quarter, thousands of Americans are asked to rate the Postal Service on their overall satisfaction with mail service and 37 other service areas, including lobby services, complaint handling, and the courtesy of postal employees. The fourth quarter's 1991 results showed that 85 percent of households nationwide consider mail service "Excellent," "Very Good" or "Good." With full implementation of CSI the Postal Service gets opinions from more than 700,000 customers annually.



Eighty-five percent of the households polled nationwide rated the Postal Service excellent, very good or good.

During Fiscal Year 1991, the Postal Service completed the first year of independent measurement from the customer's perspective under the External First-Class measurement system and the Customer Satisfaction Index.

3:06 PM



"I think it's great the Postal Service is concerned about clean air and protecting the environment."

*Jim Doonan
Mechanic
Bethesda, MD*

DOING OUR SHARE TO PRESERVE NATURAL RESOURCES

W

ith 750,000 career employees, a fleet of about 176,000 vehicles and 40,000 post offices, stations and branches, the Postal Service has a large impact on the environment. In 1991, it made recycling, conservation and other environmental issues an integral part of its overall mission. The first chief environmental officer was appointed. The Postal Service launched the nation's largest recycling effort, which could save the American people as much as \$40 million annually. Postal facilities from Nome, AK, to Nantucket, MA, are participating in the National Pollution Prevention Program, which the Environmental Protection Agency (EPA) called "a model for everyone in the public and private sectors."

The Postal Service also is working with advertising mailers to help them improve the effectiveness of their direct marketing efforts by identifying and correcting the causes of unwanted and undeliverable-as-addressed mail. Mailers got help to prepare better targeted mailing lists and to address mail more accurately.

Such efforts benefit the environment by eliminating waste, and mailers benefit by eliminating unnecessary expense.

The Postal Service has made "recyclability" a major focus in all of its product and development efforts — ranging from product packaging to postage stamp and stationery items. Last year, more than 45 billion postage stamps were produced. Stamp sales totaled \$9.2 billion. Over 99 percent of these stamps are the familiar "lick and stick" variety. These are made with water-activated adhesives, which totally dissolve during the recycling process. A special paper was developed making it easier for peel and stick stamps to be dispensed through automatic teller machines (ATMs).

The Postal Service also expanded its "good neighbor" efforts to assist communities wrestling with clean air problems. The Postal Service operates the nation's largest fleet of cleaner running natural gas delivery vehicles, which will triple to more than 1,000 vehicles in 1992.

ALTERNATIVE FUEL FLEET



The Postal Service operates the world's largest alternative fuel fleet. The number of vehicles running on compressed natural gas, deployed in the cities shown, will triple in 1992 to more than 1,000 cleaner running vehicles.

The Postal Service began experimenting with alternative fuels in the 1970s. Since then, to keep pace with technological advances and to address clean air concerns, it continues to test and evaluate alternative fuels like compressed natural gas (as shown in photo at left).

PROTECTING THE MAIL

Millions of times each day, an act of faith occurs between the American people and the Postal Service. Americans entrust to letter carriers some of their most valued possessions — their private thoughts and payroll checks, their birthday presents, bills and baby pictures. They open the blue collection box and deposit their mail, confident that the Postal Service will do whatever it has to do to get the item delivered safely, accurately and on time.

The Postal Inspection Service, the nation's oldest federal law enforcement agency,

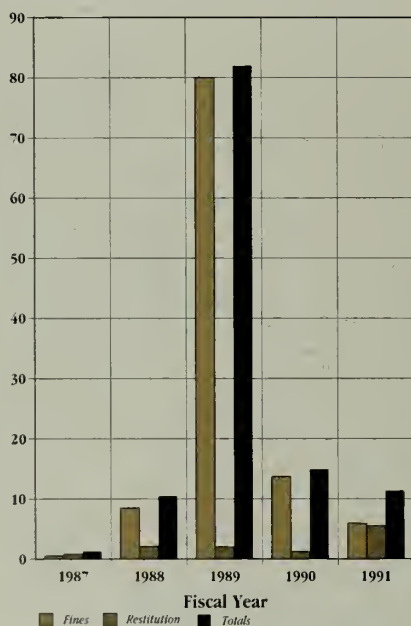
continued its efforts to eliminate theft, consumer fraud and misrepresentations through the mail. It also conducted audits of postal expenditures, operations and programs to confirm that reported results were achieved.

ENFORCING THE LAW

In Fiscal Year 1991, postal inspectors received 202,901 mail theft complaints and made 5,720 arrests related to mail theft by non-postal personnel. At the same time, postal inspectors arrested 954 individuals for miscellaneous crimes such as counterfeit or contraband postage, money order offenses, vandalism and arson. Postal inspectors conducted 4,263 mail fraud investigations during Fiscal Year 1991 and made 1,772 arrests. The investigative work of postal inspectors on the Michael Milken securities fraud case resulted in an award of more than \$22 million payable to the Postal Service as its share of the negotiated forfeiture. In Fiscal Year 1991, 371 civil complaints were filed under the False Representation Statute. The Postal Inspection Service launched two ambitious nationwide drug sting operations dubbed

In Fiscal Year 1991, the Postal Service began implementation of a new Corporate Delivery Plan to bring all current delivery operations up to the highest possible level of service and productivity and to prepare delivery operations for barcode automation.

CRIMINAL FINES AND RESTITUTION RECEIVED BY USPS



The Postal Service received \$11.4 million in proceeds from criminal fines and court-ordered restitution.

“Clean Sweep” I and II respectively, which targeted dealers who use the mail to distribute drugs and collect illegal proceeds. In 1991, postal inspectors arrested 1,468 individuals for the mailing of narcotics and seized drug proceeds, which exceeded \$12.7 million. Under the forfeiture authority legislated by Congress in 1986, postal inspectors seized property with an appraised value of over \$34.8 million in Fiscal Year 1991. Approximately 67 percent of the civil forfeitures are related to money laundering violations, while the remaining 33 percent involved drug violations.

5:18 PM



"It is critical to the success of the Postal Service that we maintain prompt pick-up and timely delivery practices."

*Lori Randolph
Letter Carrier
Minneapolis, MN*



8:42 PM

*"Training is
very important
to the Postal
Service because
of automation
and the sophis-
ticated equip-
ment we use to
process the
mail."*

*Carlos Lobo
Electronic Technician
San Antonio, TX*



DEVELOPING THE WORK FORCE THROUGH CAREER OPPORTUNITY

The success of the Postal Service depends on well-trained and motivated employees. In Fiscal Year 1991, the Postal Service continued its efforts to expand the skills of its work force. More than 11 million hours of training were provided during the fiscal year, representing an 8.8 percent increase over 1990. Including salaries, the Postal Service spent \$418 million for training during the year.

Extensive work force diversity training was provided to Postal Service managers to improve management skills in working effectively with a culturally diverse work force. Government and private forecasts point to the accelerated entrance of minorities and women into the American workplace through the year 2000.

Career planning and guidance training were provided to more than 7,000 employees through Career Resource Centers at post offices in Little Rock, AR; Phoenix, AZ; Boston, MA; and New Brunswick, NJ. Additional centers are scheduled to open in 1992.

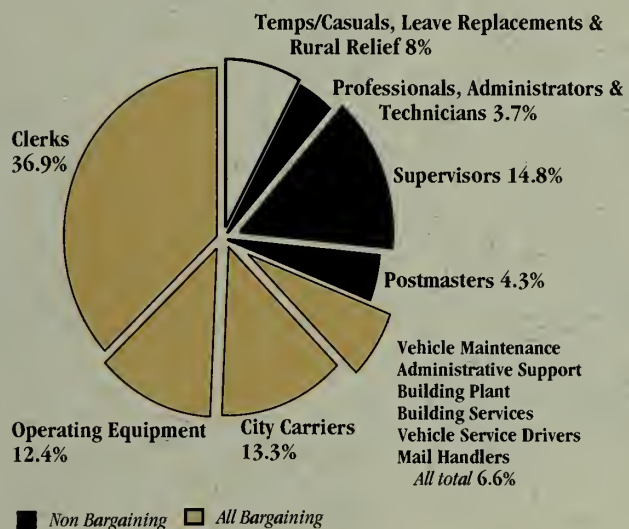
LONG-DISTANCE
LEARNING

More than 22,500 employees were trained during the fiscal year via the state-of-the-art Postal Satellite Training Network (PSTN), inaugurated in November 1990 with an interactive broadcast to all 73 postal field divisions.

In 1991, PSTN allowed the Postal Service to avoid significant travel and related costs and permitted more managers and employees to increase their technical skills by receiving training in their communities. The network was used extensively to prepare employees for rate adjustments and revenue generation programs announced in 1991. Audio teletraining reached more than 8,000 employees involved in rates and classification changes, rail and highway contract management, labor relations and personnel management.

Several new maintenance training programs were introduced during the fiscal year (as shown at left), including the Introduction to Model 881 Flat Sorter Training Program, the Wide Area Bar Code Sorter Program, and the Advanced Facer/Canceler Systems course.

FY 1991 USPS TOTAL TRAINING HOURS*



*Does not include Regions and Headquarters

The USPS provided more than 11 million hours in employee training in Fiscal Year 1991.

10:05 PM



*"Automation is
making my job
a lot easier. It
feels good to
work smarter
... not harder."*

*Mark Konze
Parcel Post Distribution
Machine Operator
Minneapolis, MN*



PACKAGING A SERVICE THAT CUSTOMERS LIKE



While total mail volume dropped in 1991 for the first time in 15 years, parcel post showed a gain of more than 10 million pieces or 8.1 percent. Mailers responded to the competitive pricing and service value of parcel post, particularly in packages for residential delivery. In order to improve service and handling efficiency for parcels and other types of mail, the Postal Service Governors approved funding of \$34.7 million to purchase 60,000 postage validation imprinters that combine postage and destination bar codes for automated sorting.

The Postal Service's commitment to identifying and meeting customer needs and expectations was reinforced in 1991 with the selection of a senior officer to head the development and implementation of a total quality management process. Several field units and departments at Postal Service Headquarters already had begun quality processes to help them improve service to their internal and external customers. Along with the Customer Satisfaction Index (CSI) and the External First-Class measurement system (EXFC), which are integral parts of a quality process, these events characterize the interest and desire throughout the Postal Service to raise levels of customer service. A total quality management process will provide impetus to achieve the Postal Service Strategic Plan nationwide to increase customer satisfaction, to maintain reasonable rates, and to enhance employee motivation and commitment.

SPIRIT OF COOPERATION

The Postal Service continued to support other processes that foster teamwork and cooperation, including Management by Participation; Employee Involvement Quality of Work Life (EI/QWL); Career Awareness Conferences; and numerous other training programs. By the end of the year, there were approximately 6,500 EI/QWL work teams and quality circles, as well as 400 joint union-management steering committees dedicated to creating opportunities for employees to participate in finding creative solutions to operations, delivery and other problems. For the first time, joint awards were presented in 1991 for outstanding efforts in participatory management by the Postal Service in conjunction with the National Association of Postmasters of the United States, the National League of Postmasters of the United States, and the National Association of Postal Supervisors. Awards were presented to postal field divisions and management sectional centers in Albany, NY; Birmingham, AL; Boston, MA; Charleston, WV; Fayetteville, NC; Fort Worth, TX; Grand Rapids, MI; Los Angeles, CA; St. Paul, MN; and Tucson, AZ.

**QUALITY
FOR THE POSTAL
SERVICE MEANS
SATISFYING THE
EXPECTATIONS
OF
OUR CUSTOMERS
THE FIRST TIME,
EVERY TIME.**

The Postal Service continued efforts in Fiscal Year 1991 to automate the processing of parcels and sacks. To facilitate the automated sorting of parcels, a contract was awarded to equip all 21 Bulk Mail Centers with a Package Bar Code Sorting System.

12:10 AM



"It's very important to have labor and management working together as a team to provide the best possible service to our customers."

— Generoso M. Mercado
Supervisor of Mails
San Antonio, TX

MOTIVATION THROUGH REWARD

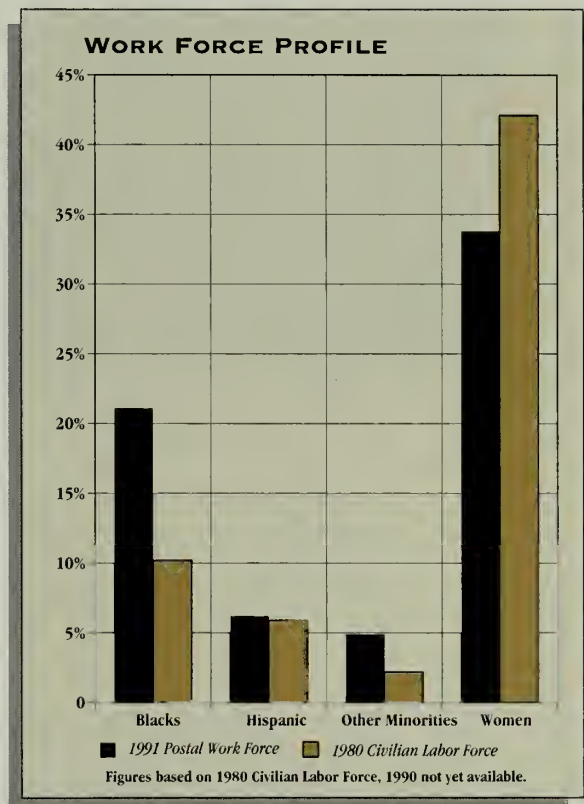
To encourage quality and foster teamwork, the Postal Service took new steps in 1991 to measure, recognize and reward its employees for their performance. The Postal Service introduced the "Striving for Excellence Together" (SET) Program, through agreements signed with all but two labor unions. The program provides incentive payments after each fiscal year based on local and national improvements in financial performance and customer satisfaction. SET pays eligible employees as much as \$1,190 annually for national financial improvements and division-level increases in community approval ratings, as measured by the Customer Satisfaction Index (CSI).

Based on its success in 1990, the Postal Service continued the Readability Improvement Leadership Award to recognize employees in each of the Postal Service's five regions who make significant contributions to the operating environment.

After months of tough negotiations between postal management and its four largest unions, the existing contracts expired November 20, 1990 without agreement. The Postal Service was able to reach a negotiated settlement in February 1991 with the National Postal Mail Handlers Union which represents 49,000 employees. However, for the two largest unions, the American Postal Workers Union and the National Association of Letter Carriers which together represent 560,000 employees, the collective bargaining process went to binding arbitration. Settled in June 1991, the first four-year labor contract provides customers with cost restraint, management with work rule flexibility, and employees with a fair package of wages and benefits. A similar agreement was reached with the National Rural Letter Carriers' Association which represents 42,000 career employees. The Postal Service also provided changes to compensation for its managers and other nonbargaining unit employees. The changes included salary increases, the SET program, and, at little or no expense to the Postal Service, new features to several of the benefit programs.

Fiscal Year 1991 was a year of difficult challenges. But, with solid planning and the dedication and commitment of its employees, the Postal Service made steady "round-the-clock" progress in achieving efficiency and cost savings.

The Postal Service continued making progress with the Employee Involvement/Quality of Work Life (EI/QWL) process, which fosters teamwork and labor-management participation. Employee recognition programs (as shown at left) also were established based on employee participation with improvements in national financial performance and customer satisfaction.



The Postal Service is one of the nation's leading employers of minorities and women.



Above seated left to right: LeGree S. Daniels, Norma Pace, John N. Griesemer, Robert Setrakian. Standing: Bert H. Mackie, Crocker Nevin, Ira D. Hall, Susan E. Alvarado, Tirso del Junco, M.D.

BOARD OF GOVERNORS FISCAL YEAR 1991

Norma Pace, *Chairman of the Board of Governors*, is an economist and consultant to several major corporations in the nation. She is President of Economic Consulting and Planning, Inc., an economic counseling and strategic planning firm. She is the author of numerous articles for business publications on forecasting and the use of forecasting in business planning. She was appointed to the Board in May 1987 for a term expiring in December 1994.

John N. Griesemer, *Vice Chairman of the Board*, is President of the Griesemer Stone Company and General Warehouse Corporation, Springfield, MO. He became a Governor in December 1984 for a term that expired December 8, 1986. He was reappointed, without a break in service, to a full term, expiring December 1995. He was selected Chairman of the Board in January 1987 and served two years.

Susan E. Alvarado, Vice President of Operations, Akmer International, Inc., an Alexandria, VA-based exporter/importer and fabricator of marble and granite, was appointed in July 1988 to serve on the Board for a term expiring December 1996. Prior to joining Akmer, she was President of the Alvarado Group, a Washington, DC, government relations firm. Formerly Assistant for Legislative Affairs to Assistant Minority Leader Senator Ted Stevens of Alaska — and subsequently to Vice President George Bush — she later served as Vice President for Congressional Liaison for the National Association of Broadcasters.

LeGree S. Daniels, a noted civil rights activist, was appointed to the Board in August 1990 for a term expiring December 1998. She served as the U.S. Department of Education's Assistant Secretary for Civil Rights from 1987 to 1989. Previously, she served as Deputy Secretary of the Commonwealth of Pennsylvania.

Tirso del Junco, M.D., a Los Angeles surgeon and entrepreneur, was appointed to the Board in July 1988 for a term expiring December 1991. He was reappointed, without a break in service, to a full term, expiring December 2000. He founded and served as Chairman of the Board of the Los Angeles National Bank and now serves as a member of the Board of Regents of the University of California.

Bert H. Mackie, President of the Security National Bank of Enid, OK, was appointed to serve on the Board in December 1988. His term will expire December 1997. He is an ardent supporter of quality education and is a trustee of the Oklahoma Foundation for Excellence.

Crocker Nevin became a Governor in August 1986 and will serve the remainder of a term expiring December 1992. He previously served on the Board of Governors from 1971 to 1977. He has an extensive background in banking, finance and community service.

Robert Setrakian, a San Francisco businessman, was appointed to the Board in December 1985 for a term expiring December 1993. He previously served as Chairman of the Board of Governors. He was a Commissioner of the Federal Maritime Commission from 1983 to 1985.

Anthony M. Frank was appointed the nation's 69th Postmaster General by the Governors on February 2, 1988, taking office March 1, 1988. Prior to joining the Postal Service, he was Chairman of the Board and Chief Executive Officer of First Nationwide Bank, one of the nation's largest consumer banking operations.

Michael S. Coughlin was named Deputy Postmaster General by the Board on January 5, 1987, after holding a series of top-level postal management positions. Now the Chief Operating Officer, he entered the Postal Service as a management intern.

Also serving on the Board during Fiscal Year 1991: **Ira D. Hall**, who was Chairman of the Audit Committee. Hall, Treasurer of IBM US, was appointed to serve on the Board in November 1987. His term expired December 8, 1990. (As provided by law, he continued serving on the Board until November 25, 1991.)

J. Sam Winters, a partner in the law firm of Clark, Thomas, Winters and Newton in Austin, TX, was appointed to serve on the Board November 26, 1991, for a term expiring December 1999.

OFFICERS OF THE U. S. POSTAL SERVICE

AS OF JANUARY 7, 1992

Officers of the Postal Service are appointed by and serve at the pleasure of the Postmaster General. In selecting them, the Postal Service places special trust and confidence in their integrity and ability.

OFFICERS OF THE U. S. POSTAL SERVICE



Anthony M. Frank
Postmaster General



Michael J. Shinay
Executive Assistant
to the Postmaster General



Michael S. Coughlin
Deputy
Postmaster General



Edward E. Horgan, Jr.
Associate
Postmaster General



Kenneth J. Hunter
Associate
Postmaster General



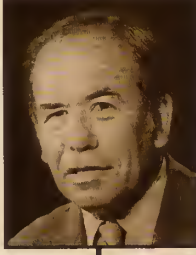
William R. Cummings
Senior Assistant
Postmaster General,
Operations Support
Group



Joseph R. Caraveo
Regional
Postmaster General,
Western Region



Richard J. Strasser, Jr.
Senior Assistant
Postmaster General,
Marketing and
Customer Service
Group



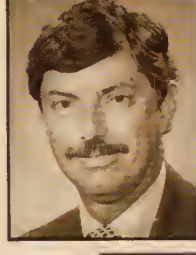
Comer S. Coppie
Senior Assistant
Postmaster
General,
Finance Group



Charles R. Clauson
Chief Postal
Inspector



Harold J. Hughes
General Counsel



David H. Charters
Senior Assistant
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Postmaster General,
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Deborah K. Bowker
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Rates and Classification
Department



Fred J. Eggleston
Deputy
General Counsel



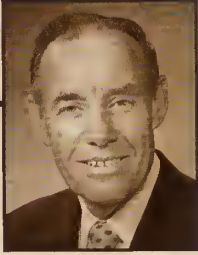
Frank R. Power
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Planning Department



Sherry A. Cagnoli
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Ann McK. Robinson
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and Transportation
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Peter A. Jacobson
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Postmaster General,
Northeast Region



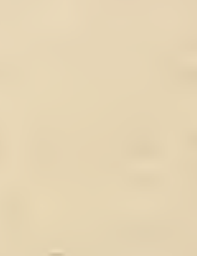
James A. Cohen
Judicial Officer



Gordon C. Morison
Assistant
Postmaster General,
Philatelic and Retail
Services Department



Stephen M. Kearney
Treasurer



M. Richard Porras
Assistant
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Information Resource
Management
Department

FINANCIAL STATEMENTS

Balance Sheets	September 30,	
	1991	1990
	(dollars in thousands)	
Assets		
Current assets		
Cash and cash equivalents	\$ 711,035	\$ 1,737,793
U.S. Government securities at amortized cost, which approximates market	3,196,694	1,895,552
Receivables		
Foreign countries	395,899	390,326
U.S. Government	114,303	102,567
Accrued interest	29,748	29,837
Other	152,213	63,714
	692,163	586,444
Less allowances	35,590	28,921
	656,573	557,523
Supplies, advances and prepayments	298,966	337,473
Total current assets	4,863,268	4,528,341
Other assets	96,583	26,936
Property and equipment, at cost - Note 7		
Buildings	8,401,231	7,433,508
Equipment	5,632,196	5,134,542
Land	1,491,820	1,302,322
	15,525,247	13,870,372
Less allowances for depreciation	4,844,600	4,449,609
	10,680,647	9,420,763
Construction in progress	2,206,249	1,885,211
Leasehold improvements, net of amortization	221,761	217,116
	13,108,657	11,523,090
Deferred retirement costs - Note 4	25,196,942	21,426,196
	<u>\$43,265,450</u>	<u>\$37,504,563</u>

See accompanying notes to financial statements.

	1991	September 30, 1990
	(dollars in thousands)	
Liabilities and Net Capital Deficiency		
Current liabilities		
Compensation and benefits	\$ 3,281,695	\$ 2,414,372
Estimated prepaid postage	1,496,000	1,296,000
Payables and accrued expenses		
Foreign countries	451,995	405,870
U.S. Government	240,241	255,710
Other	75,396	221,126
	<u>767,632</u>	<u>882,706</u>
Prepaid permit mail and box rentals	978,760	887,072
Outstanding postal money orders	573,969	506,455
Current portion of long-term debt	302,048	303,200
Total current liabilities	<u>7,400,104</u>	<u>6,289,805</u>
Long-term debt, less current portion - Note 7	8,138,375	6,667,530
Other liabilities		
Amounts payable for retirement benefits - Note 4	24,242,503	20,767,653
Workers' compensation costs - Note 5	3,521,000	3,780,000
Retroactive assessment payable to the U.S. Government - Note 2	1,397,082	—
Employees' accumulated leave	1,195,712	1,133,478
Other	117,610	143,763
	<u>30,473,907</u>	<u>25,824,894</u>
Commitments and contingencies - Notes 8 and 9		
Net capital deficiency		
Capital contributions of the U.S. Government	3,033,471	3,034,127
Deficit since reorganization	<u>(5,780,407)</u>	<u>(4,311,793)</u>
Total net capital deficiency	<u>(2,746,936)</u>	<u>(1,277,666)</u>
	<u>\$43,265,450</u>	<u>\$37,504,563</u>

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

Statements of Operations and Changes in Net Capital Deficiency

	Years Ended September 30,	
	1991	1990
	(dollars in thousands)	
Operating revenue - Note 6	\$43,884,472	\$39,654,830
Operating expenses		
Compensation and benefits - Notes 2, 3, 4 and 5	36,076,230	34,214,093
Other	7,214,553	6,275,791
	<u>43,290,783</u>	<u>40,489,884</u>
Income (loss) from operations	593,689	(835,054)
Interest income	317,763	419,691
Interest expense on borrowings	(479,417)	(458,215)
Extraordinary retroactive assessment for employee benefits (includes imputed interest of \$90,507) - Note 2	<u>(1,900,649)</u>	<u>—</u>
Net loss	(1,468,614)	(873,578)
Net capital deficiency — beginning of year	(1,277,666)	(401,629)
Capital equipment transferred to the U.S. Government	<u>(656)</u>	<u>(2,459)</u>
Net capital deficiency — end of year	<u><u>\$ (2,746,936)</u></u>	<u><u>\$ (1,277,666)</u></u>

See accompanying notes to financial statements.

Statements of Cash Flows

	Years Ended September 30,	
	1991	1990
	(dollars in thousands)	
Cash flows from operating activities:		
Net loss	\$ (1,468,614)	\$ (873,578)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	734,325	668,751
(Increase) in other assets	(89,357)	(595)
Increase in retirement costs, net of retirement benefits payable	(295,896)	(46,684)
(Decrease) increase in non-current workers' compensation costs	(259,000)	35,000
Retroactive assessment payable to the U.S. Government	1,397,082	—
Increase in employees' accumulated leave	62,234	192,897
(Decrease) increase in other liabilities	(26,153)	86,000
Changes in current assets and liabilities:		
(Increase) decrease in receivables, net	(99,050)	18,923
Decrease (increase) in supplies, advances and prepayments	38,507	(169,214)
Increase in accrued compensation and benefits	867,323	303,786
Increase in estimated prepaid postage	200,000	44,000
(Decrease) increase in payables and accrued expenses	(115,074)	24,882
Increase in prepaid permit mail and box rentals	91,688	57,019
Increase (decrease) in outstanding postal money orders	67,514	(37,748)
Net cash provided by operating activities	1,105,529	303,439
Cash flows from investing activities:		
(Purchase) sale of U.S. Government securities, net	(1,301,142)	931,629
Purchase of property and equipment, net	(2,320,548)	(1,858,296)
Net cash used in investing activities	(3,621,690)	(926,667)
Cash flows from financing activities:		
Issuance of long-term debt	1,800,000	800,000
Decrease (increase) in bond sinking fund	19,710	(10,000)
Payments on long-term debt	(330,307)	(305,532)
Net cash provided by financing activities	1,489,403	484,468
Net decrease in cash and cash equivalents	(1,026,758)	(138,760)
Cash and cash equivalents at beginning of year	1,737,793	1,876,553
Cash and cash equivalents at end of year	\$ 711,035	\$ 1,737,793

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991 AND 1990

1. POSTAL REORGANIZATION AND ACCOUNTING POLICIES

Postal Reorganization

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

Cash Equivalents

Cash equivalents include securities with maturities at date of purchase of 90 days or less.

Property and Equipment

Property and equipment are recorded at cost, including interest on funds borrowed to finance the acquisition or construction of major capital additions. Such interest amounted to \$126,754,000 in Fiscal Year 1991 and \$107,276,000 in Fiscal Year 1990. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease period or their useful lives.

Estimated Prepaid Postage

Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

Workers' Compensation Costs

Workers' compensation costs are self-insured by the Postal Service. Such costs, which include both medical and wage continuation costs, are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends and other factors.

Compensation and Benefits

Amounts payable for compensation and benefits consists of

current liabilities for costs related to current employees and postal annuitants. Such liabilities include those arising from current salaries and benefits earned but not yet paid, currently payable workers' compensation costs, unemployment costs, annuitants' health benefits payable and current portions of retirement liabilities. Compensation and benefits expense includes all the above-mentioned items and, in addition, includes interest expense on the deferred unfunded retirement liabilities.

Retirement Benefits

Amounts payable for retirement benefits reflect the net present value of the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the CSRS Fund) arising from increases in basic pay granted by postal management to its employees and cost-of-living allowances (COLAs) to postal annuitants based on postal service. Also included in this total is the net present value of an unfunded liability arising from the transfer of Civil Service Retirement System (CSRS) employees into the Federal Employees Retirement System (FERS). These liabilities are payable in equal amounts over a 30-year period, with the exception of COLAs, which are payable over 15 years. Amounts applicable to operations of future years are capitalized as deferred retirement costs and are subsequently amortized over periods of 30 and 15 years.

Post-Retirement Health Benefits

Retiree health benefits costs represent the Postal Service's obligation to pay a portion of the health insurance premiums of retirees and their survivors participating in the Federal Employees Health Benefit Program (FEHBP). The Postal Service's participation in the FEHBP is accounted for as participation in a multiemployer plan arrangement. Accordingly, retiree health benefits costs are expensed as incurred.

Research and Development Costs

Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to approximately \$115,000,000 in Fiscal Year 1991 and \$81,000,000 in Fiscal Year 1990.

Reclassifications

Certain reclassifications have been made to previously reported amounts in order to conform to the current year presentation.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991 AND 1990

2. EXTRAORDINARY RETROACTIVE ASSESSMENT FOR EMPLOYEE BENEFITS

The Omnibus Budget Reconciliation Act of 1990 (OBRA 1990), enacted in October 1990, extended the Postal Service's obligation to pay the employer's portion of annuitant COLAs (Note 4) and health benefits (Note 3). The OBRA 1990 also assessed the Postal Service for retroactive amounts to be paid in five annual installments, beginning in Fiscal Year 1991, totaling \$2,140,000,000. The assessment represents the employer's portion of annuitant COLAs and health benefits, previously paid by the U.S. Government, that the Postal Service would have paid had the provisions of the OBRA 1990 been in effect from July 1, 1971, through September 30, 1986.

The retroactive assessments payable under the OBRA 1990, on a present value basis, are as follows (in thousands):

<u>Fiscal Year</u>	<u>Health Benefits</u>	<u>COLAs</u>	<u>Total</u>
1991	\$ 56,000	\$216,000	\$ 272,000
1992	47,000	266,000	313,000
1993	62,000	316,000	378,000
1994	56,000	416,000	472,000
1995	234,000	471,000	705,000
			<u>2,140,000</u>
Less amount representing imputed interest at 5 percent			<u>329,858</u>
Extraordinary retroactive assessment for employee benefits			1,810,142
Less 1991 installment paid			181,493
Less the 1992 installment classified as a current liability			<u>231,567</u>
			<u><u>\$1,397,082</u></u>

3. POST-RETIREMENT HEALTH BENEFIT PROGRAMS

Career employees of the Postal Service are eligible to participate in the FEHBP, which is administered by the Office of Personnel Management (OPM), during their employment and also after retirement. Under the FEHBP, the Postal Service pays a portion of the health insurance premiums of participating employees, retirees and their survivors.

The Omnibus Budget Reconciliation Act of 1985, enacted in April 1986, obligated the Postal Service to pay the employer's

share of health insurance premiums incurred through participation in the FEHBP for employees retiring after September 30, 1986 and their survivors. Such costs amounted to \$166,000,000 in Fiscal Year 1990 and are included in compensation and benefits expense.

The OBRA 1990 extended the Postal Service's obligation, on a prospective basis, to include the employer's share of health insurance premiums incurred through participation in the FEHBP for all employees retiring on or after July 1, 1971, and their survivors, with the exclusion of costs attributable to federal civilian service prior to that date. Such costs related to current year operations amounted to \$328,000,000 in Fiscal Year 1991 and are included in compensation and benefits expense.

As discussed in Note 2, the OBRA 1990 also required the Postal Service to reimburse the U.S. Government for annuitants' health benefits costs paid prior to the enactment of the law.

4. RETIREMENT PROGRAMS

Description of Plans

The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the CSRS. CSRS provides a basic annuity and Medicare coverage.

Employees hired between January 1, 1984 and January 1, 1987, are covered by the provisions of the Dual CSRS/Social Security System until January 1, 1987. Certain employees with prior government service continue to be covered by such provisions.

Effective January 1, 1987, employees hired since January 1, 1984, except as noted above, are subject to the provisions of the Federal Employees Retirement System (FERS) Act of 1986. In addition, employees hired prior to January 1, 1984 were able to elect participation in FERS during certain periods in Fiscal Years 1987 and 1988. FERS is a three-tier retirement system consisting of Social Security, a basic annuity plan and a thrift savings plan.

The Postal Service is required to contribute a minimum of 1 percent per annum of the basic pay of FERS employees to the thrift savings plan. Contributions by FERS employees to the thrift savings plan are voluntary and are fully matched by the Postal Service up to 3 percent of basic pay and at a 50 percent rate between 3 percent and 5 percent of basic pay.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991 AND 1990

The number of employees enrolled in each of the retirement plans at the end of Fiscal Years 1991 and 1990 are as follows:

	1991	1990
CSRS	424,671	447,538
Dual CSRS/Social Security	14,624	14,470
FERS	308,868	298,086

Deferred Retirement Costs

Deferred retirement costs consist of the following unfunded liabilities (in thousands):

	1991	1990
CSRS basic pay increases	\$21,776,528	\$20,637,035
CSRS annuitants' COLAs	3,066,086	427,887
FERS	354,328	361,274
	<u>\$25,196,942</u>	<u>\$21,426,196</u>

Unfunded Liability - FERS

The unfunded liability of the FERS basic annuity plan relates to costs associated with employees who transferred from the CSRS. This liability is determined by the Office of Personnel Management (OPM), and is funded by the Postal Service through supplemental contributions over a 30-year period with interest computed at 7 percent per annum. In Fiscal Year 1989, OPM determined the initial supplemental liability under FERS attributable to Postal Service employees at September 30, 1988, to be \$400,000,000. An annual payment of \$32,235,000 is due on September 30 of each year.

Unfunded Liability - CSRS

Under the CSRS, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the CSRS Fund attributable to Postal Service employee-management agreements that authorize increases in employees' basic pay on which benefits payable from the CSRS Fund are computed. The estimated increase in the unfunded liability as determined by OPM is paid by the Postal Service in 30 equal annual installments with interest computed at 5 percent per annum. The first payment thereof is due at the end of the fiscal year in which an increase in the basic pay becomes effective.

The increases in the unfunded liability for retirement benefits pursuant to employee-management agreements under the CSRS in Fiscal Years 1991 and 1990 were \$1,882,813,000 and \$661,996,000, respectively.

Unfunded Liability - Annuitants' COLAs

In Fiscal Year 1990, the Postal Service became liable, on a prospective basis, for the cost of COLAs granted to postal annuitants retiring subsequent to September 30, 1986, pursuant to the Omnibus Budget Reconciliation Act of 1989 (OBRA 1989). The increase in the unfunded liability for annuitants' COLAs was \$486,470,000 in Fiscal Year 1990.

The OBRA 1989 was amended by the OBRA 1990, effective in Fiscal Year 1991, which extended the Postal Service's liability, on a prospective basis, to include COLAs granted to employees retiring on or after July 1, 1971. The annual liability created by these laws is determined by OPM and funded in equal annual installments over 15 years, with interest at 5 percent per annum. The increase in the unfunded liability for annuitants' COLAs was \$2,944,424,000 in Fiscal Year 1991.

Future Minimum Payments

The estimated future minimum payments required to fund amounts payable for CSRS and FERS retirement benefits on September 30, 1991, are as follows (in thousands):

Fiscal Year	Amount
1992	\$ 2,244,872
1993	2,214,872
1994	2,204,471
1995	2,183,971
1996	2,157,871
Thereafter	<u>29,866,337</u>
	40,872,394
Less the portion classified as a current liability	977,439
Less amount representing interest	<u>15,652,452</u>
	<u>\$24,242,503</u>

Expense Components

Components of aggregate retirement expenses for Fiscal Years 1991 and 1990 are shown at the top of the next page (in thousands). These costs are included in compensation and benefits expense.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991 AND 1990

	1991	1990
CSRS - regular	\$ 917,167	\$ 939,715
FERS - regular	992,323	879,374
FERS - Thrift Savings Plan	229,775	184,979
Dual CSRS/Social Security	28,629	27,804
Amortization of unfunded liabilities:		
CSRS	743,320	628,355
Annuitant COLAs	306,225	58,583
FERS	6,946	6,491
Interest on unfunded liabilities ...	<u>1,171,882</u>	<u>1,070,963</u>
	<u>\$4,396,267</u>	<u>\$3,796,264</u>

5. WORKERS' COMPENSATION

As a part of management's continuing evaluation of estimates required in the preparation of its financial statements, two refinements to the basis of calculating the estimate of the liability for workers' compensation were implemented during Fiscal Year 1991.

The first refinement reevaluates the probability of cases leaving the workers' compensation rolls for reasons other than mortality. Prior to Fiscal Year 1991, the estimate of the long-term liability was based on the assumption that all cases on the workers' compensation rolls for eight or more years would remain on the rolls until the death of the claimant. This assumption was made because a sufficient database of claims information since Postal reorganization did not exist at the time the liability estimation methodology was developed. Accordingly, cases on the rolls for eight or more years were not assigned probabilities of termination for reasons other than mortality. Collection and analysis of a more comprehensive history of workers' compensation cases indicates that a number of cases eight or more years old leave the workers' compensation rolls for reasons other than mortality. In response to this analysis, in Fiscal Year 1991, the Postal Service refined the liability estimation model to assign non-mortality termination probabilities, based on actual claims history, to claimants on the rolls for eight or more years.

The second refinement establishes a separate discount rate for that portion of the Postal Service's workers' compensation liability comprised of estimated future medical payments, in order to better reflect the effects of medical inflation on those payments. The effect of this refinement is to reduce the net discount rate used for medical cases.

The effect of these refinements has been accounted for as a change in accounting estimate and, accordingly, resulted in a net decrease of \$836,168,000 in the Postal Service's Fiscal Year 1991 compensation and benefits expense. In management's opinion, these refinements represent a significant improvement in the estimation process. Components of this change are as follows (in thousands):

	Medical Claims	Compensation Claims	Total
Effect of cases leaving the rolls for reasons other than mortality	\$260,662	\$673,466	\$934,128
Effect of change in net discount rate	(97,960)	-	(97,960)
	<u>\$162,702</u>	<u>\$673,466</u>	<u>\$836,168</u>

6. REVENUE FORGONE

Operating revenue includes reimbursements and accruals for revenue forgone. Revenue forgone results from charging lower rates for the mail categories which Congress has determined should be subsidized through tax dollars. Revenue forgone earned by the Postal Service during Fiscal Years 1991 and 1990 amounted to \$561,868,000 and \$453,425,000, respectively.

7. LONG-TERM DEBT AND INTEREST COSTS

The Postal Reorganization Act, as amended by Public Law 101-227, authorizes the Postal Service to issue and sell obligations not to exceed \$12,500,000,000 and \$10,000,000,000 outstanding at any one time in Fiscal Years 1991 and 1990, respectively. This law increases borrowing authority for Fiscal Year 1992 and thereafter to \$15,000,000,000. Net annual increases in outstanding obligations are limited to \$2,000,000,000 for the purpose of capital improvements and \$1,000,000,000 for operating expenses.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1991 AND 1990

Long-term debt consists of the following:

	September 30, 1991	September 30, 1990
6-7/8% Postal Service Bonds, Series A, due February 1, 1997	\$ 220,290,000	\$ 250,000,000
Notes payable to Federal Financing Bank:		
8.075% payable \$32,000,000 each year to May 31, 2000	288,000,000	320,000,000
7.800% payable \$15,000,000 each year to May 31, 2001	150,000,000	165,000,000
10.475% payable \$38,800,000 each year to May 31, 2010	737,200,000	776,000,000
7.591% payable \$50,000,000 each year to May 31, 2011	1,000,000,000	1,050,000,000
8.474% payable \$30,000,000 each year to May 31, 2012	630,000,000	660,000,000
8.908% payable \$35,400,000 each year to May 31, 2012	743,400,000	778,800,000
9.074% payable \$60,000,000 each year to May 31, 2012	1,260,000,000	1,320,000,000
9.081% payable \$36,000,000 each year to May 31, 1996, \$12,000,000 due June 2, 1997	192,000,000	228,000,000
8.759% average interest rate, payable \$24,000,000 commencing on May 31, 1997, with 16 payments of \$36,000,000 due each succeeding year ending on May 31, 2013	600,000,000	600,000,000
8.488% payable on October 2, 1995, with interest payments commencing on March 31, 1991	800,000,000	800,000,000
7.593% average interest rate, payable \$450,000,000 on September 30, 1993, 1998, 2001, 2021 with interest payments commencing on September 30, 1991	1,800,000,000	—
Mortgage notes payable including interest of 4.75% to 10% maturing from Fiscal Years 1992 through 2004 secured by land, buildings and equipment with a carrying amount of \$94,660,000 (aggregate annual installments approximate \$5,300,000)	19,533,000	22,930,000
	8,440,423,000	6,970,730,000
	302,048,000	303,200,000
Less current portion	<u>\$8,138,375,000</u>	<u>\$6,667,530,000</u>

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991 AND 1990

The 6-7/8% Series A Postal Service Bonds were issued under a Trust Indenture dated February 1, 1972, and are secured by a first lien on the revenue, income, fees, rents, appropriations, and other receipts of the Postal Service; the proceeds of all obligations issued by the Postal Service; and all sinking and improvement funds established pursuant to the Trust Indenture. On July 31 of each year, the Postal Service is required to deposit in a sinking and improvement fund the sum of \$10,000,000 either in cash or reacquired Series A Bonds. However, at the option of the Postal Service, such sinking fund requirements may be applied to the payment of costs of capital additions or improvements to properties of the Postal Service, or may be used to invest in restricted Treasury securities as agreed with the fund custodian. Since the commencement of the sinking fund in 1978, the Postal Service has applied \$110,000,000 to the construction of mail facilities. The balance in the sinking fund (\$290,000 in 1991 and \$20,000,000 in 1990) is included in other assets in the accompanying balance sheets. The bonds are redeemable prior to maturity in February 1997, at the option of the Postal Service, at the principal amount plus accrued interest.

On July 31, 1991, the Postal Service deposited \$10,000,000 in the sinking fund, bringing the sinking fund balance at that time to \$30,000,000. The Postal Service subsequently retired, prior to maturity, repurchased bonds with a face value of \$29,710,000. The assets of the sinking fund were used to retire the repurchased bonds.

Annual maturities of the debt described above for each of the next five years are (in millions): 1992 — \$302; 1993 — \$750; 1994 — \$299; 1995 — \$1,099; 1996 — \$301.

Cash paid for interest was \$623,976,000 in 1991 and \$565,259,000 in 1990.

8. COMMITMENTS

At September 30, 1991, the estimated cost to complete approved Postal Service capital projects in progress was approximately \$2,500,000,000.

Total rental expense for the years ended September 30, 1991 and 1990 is summarized as follows (in thousands):

	1991	1990
Non-cancellable real estate leases		
including related taxes	\$511,200	\$492,100
Facilities leased from General Services Administration subject to 120-day notice of cancellation	35,100	34,400
Equipment and other short-term rentals	85,700	72,000
	<u>\$632,000</u>	<u>\$598,500</u>

At September 30, 1991, the future minimum rentals for all non-cancellable leases are as follows (in thousands):

Year	Total
1992	\$ 393,000
1993	324,000
1994	270,000
1995	216,000
1996	154,000
Thereafter	498,000
	<u>\$1,855,000</u>

Most of these leases contain renewal options for periods ranging from three to 20 years. Certain non-cancellable real estate leases have options to purchase the facilities at prices specified in the leases.

9. CONTINGENCIES

Several equal employment opportunity, employee compensation, environmental and postal rate class action lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages, and suits and claims arising out of postal contracts.

In the opinion of management and General Counsel, adequate provision has been made for amounts that may become due under the suits, claims, and proceedings discussed in the preceding paragraph.

REPORT OF INDEPENDENT AUDITORS

Board of Governors
United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 1991 and 1990, and the related statements of operations and changes in net capital deficiency and cash flows for the years then ended. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst + Young

Washington, DC
November 8, 1991

FINANCIAL HISTORY SUMMARY

	1991	1990	1989	1988	1987
(dollars in thousands)					
STATEMENTS OF OPERATIONS					
Operating revenue	\$43,322,604	\$ 39,201,405	\$ 37,978,675	\$ 35,035,753	\$ 31,528,112
Public service appropriation	0	0	0	0	0
Revenue forgone appropriation ..	561,868	453,425	436,417	517,000	650,000
Total operating revenue	43,884,472	39,654,830	38,415,092	35,552,753	32,178,112
Salaries and benefits	36,076,230	34,214,093	32,368,364	30,478,649	27,228,844
Other expenses	7,214,553	6,275,791	6,002,394	5,640,537	5,290,845
Total operating expenses	43,290,783	40,489,884	38,370,758	36,119,186	32,519,689
Operating income (loss)	593,689	(835,054)	44,334	(566,433)	(341,577)
Retroactive assessment					
for employee benefits	(1,900,649)	-	-	-	-
Other (loss) income	(161,654)	(38,524)	16,385	(30,477)	118,891
Net (loss) income	<u>(\$ 1,468,614)</u>	<u>(\$ 873,578)</u>	<u>\$ 60,719</u>	<u>(\$ 596,910)</u>	<u>(\$ 222,686)</u>
BALANCE SHEETS					
Assets					
Current assets*	\$ 4,863,268	\$ 4,528,341	\$ 5,448,439	\$ 4,731,822	\$ 5,340,524
Property, plant and equipment, deferred retirement costs and other assets	38,402,182	32,976,222	31,323,509	29,940,440	26,746,689
Total assets*	<u>\$43,265,450</u>	<u>\$ 37,504,563</u>	<u>\$ 36,771,948</u>	<u>\$ 34,672,262</u>	<u>\$ 32,087,213</u>
Liabilities					
Current liabilities	\$ 7,400,104	\$ 6,289,805	\$ 5,897,866	\$ 5,499,569	\$ 5,603,132
Other liabilities*	30,473,907	25,824,894	25,102,649	24,020,423	21,911,231
Long-term debt	8,138,375	6,667,530	6,173,062	5,612,704	4,434,623
(Net capital deficiency) equity	(2,746,936)	(1,277,666)	(401,629)	(460,434)	138,227
Total liabilities and equity*	<u>\$43,265,450</u>	<u>\$ 37,504,563</u>	<u>\$ 36,771,948</u>	<u>\$ 34,672,262</u>	<u>\$ 32,087,213</u>
ANALYSES OF CHANGES IN (NET CAPITAL DEFICIENCY)EQUITY					
Beginning balance	(\$ 1,277,666)	(\$ 401,629)	(\$ 460,434)	\$ 138,227	\$ 361,868
Net (loss) income	(1,468,614)	(873,578)	60,719	(596,910)	(222,686)
Capital contributions	(656)	(2,459)	(1,914)	(1,751)	(955)
Ending balance	<u>(\$ 2,746,936)</u>	<u>(\$ 1,277,666)</u>	<u>(\$ 401,629)</u>	<u>(\$ 460,434)</u>	<u>\$ 138,227</u>

* Certain reclassifications have been made to 1990 amounts to conform to 1991 presentation. Prior years have not been restated due to immateriality.

**IMPACT OF REVENUE FORGONE APPROPRIATION*
ON REVENUES, FISCAL YEAR 1991**

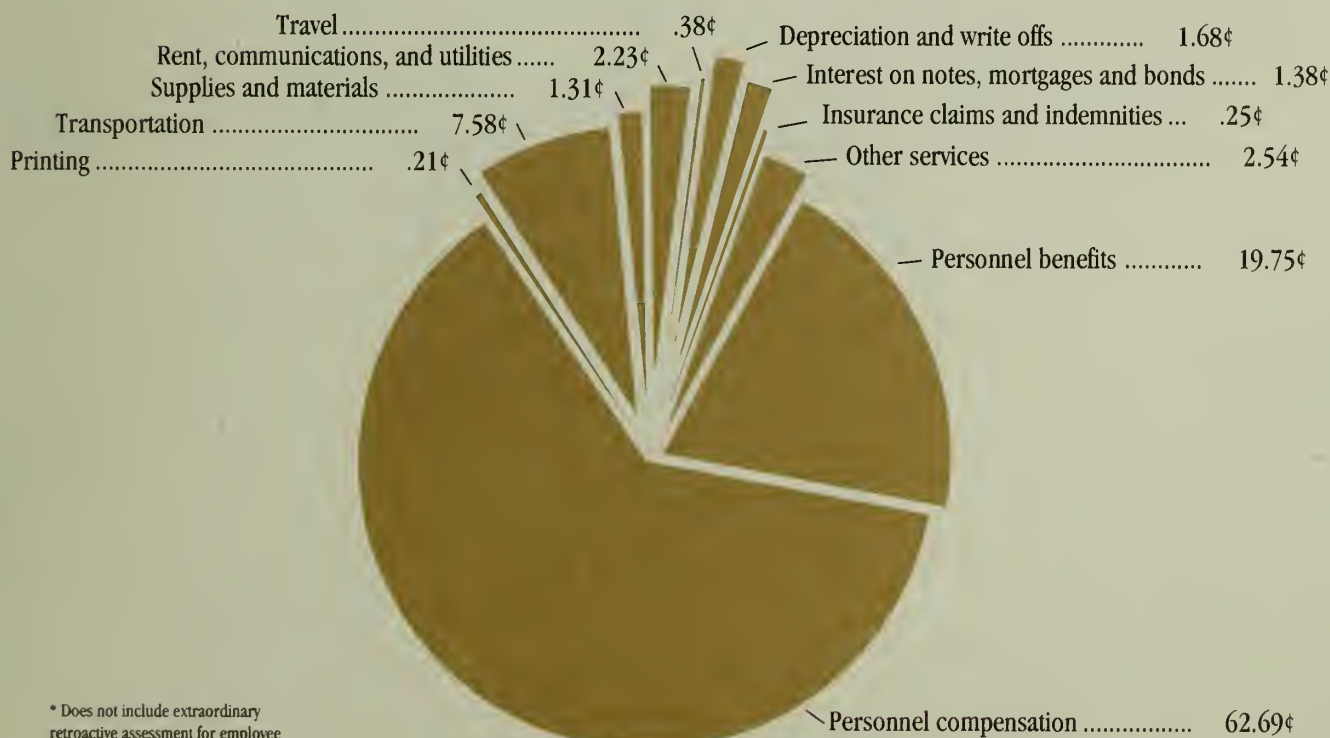
CLASSES OF SERVICE	TOTAL INCOME OF SERVICE	INCOME FROM REVENUES	INCOME FROM APPROPRIATION	APPROPRIATION AS A PERCENTAGE OF INCOME
(dollars in millions)				
First-Class Mail	\$26,648.5	\$26,648.5	none	none
Priority Mail	1,764.6	1,764.6	none	none
Express Mail	668.0	668.0	none	none
Mailgram	7.5	7.5	none	none
Second-Class Mail				
Within-the-county	\$ 115.3	\$ 88.7	\$ 26.6	23.15%
Outside-the-county				
Non-profit and classroom publications .	326.5	257.8	68.7	21.03%
Regular-rate publications	1,305.1	1,304.7	0.4	0.03%
Fees	<u>16.6</u>	<u>16.6</u>	<u>none</u>	<u>none</u>
Total Second-Class Mail	\$ 1,763.5	\$ 1,667.8	\$ 95.7	5.43%
Third-Class Mail				
Single-piece rate	\$ 202.8	\$ 202.8	none	none
Regular bulk rate	7,647.0	7,647.0	none	none
Non-profit bulk rate	1,507.5	1,052.2	\$455.3	30.20%
Fees	<u>54.0</u>	<u>54.0</u>	<u>none</u>	<u>none</u>
Total Third-Class Mail	\$ 9,411.3	\$ 8,956.0	\$455.3	4.84%
Fourth-Class Mail				
Parcels (zone rate)	\$ 454.8	\$ 454.8	none	none
Bound printed matter	265.7	265.7	none	none
Special rate matter	233.7	233.7	none	none
Library materials	48.5	45.4	\$ 3.1	6.33%
Fees	<u>1.3</u>	<u>1.3</u>	<u>none</u>	<u>none</u>
Total Fourth-Class Mail	\$ 1,004.0	\$ 1,000.9	\$ 3.1	0.31%
Free mail for the blind				
and handicapped	\$ 36.0	0.0	\$ 36.0	100.00%
International Mail	<u>1,206.0</u>	<u>1,206.0</u>	<u>none</u>	<u>none</u>
Totals	<u>\$42,509.4</u>	<u>\$41,919.3</u>	<u>\$590.1</u>	<u>1.39%</u>
Adjustment for prior years			(28.2)	
Totals			<u>\$561.9</u>	

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate in accordance with Congressional mandate. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

SOURCE OF INCOME, FISCAL YEAR 1991

	(dollars in millions)
Mail revenue	\$41,919.4
Special services	1,403.2
Government appropriations for free and reduced rate mail	561.9
Total operating revenue	43,884.5
Total operating expenses	43,290.8
Income from operations	593.7
Interest income	317.7
Interest expense	(479.4)
	432.0
Extraordinary retroactive assessment for employee benefits	(1,900.6)
Net loss	<u>(\$ 1,468.6)</u>

ANALYSIS OF EXPENSES, FISCAL YEAR 1991 *



* Does not include extraordinary retroactive assessment for employee benefits.

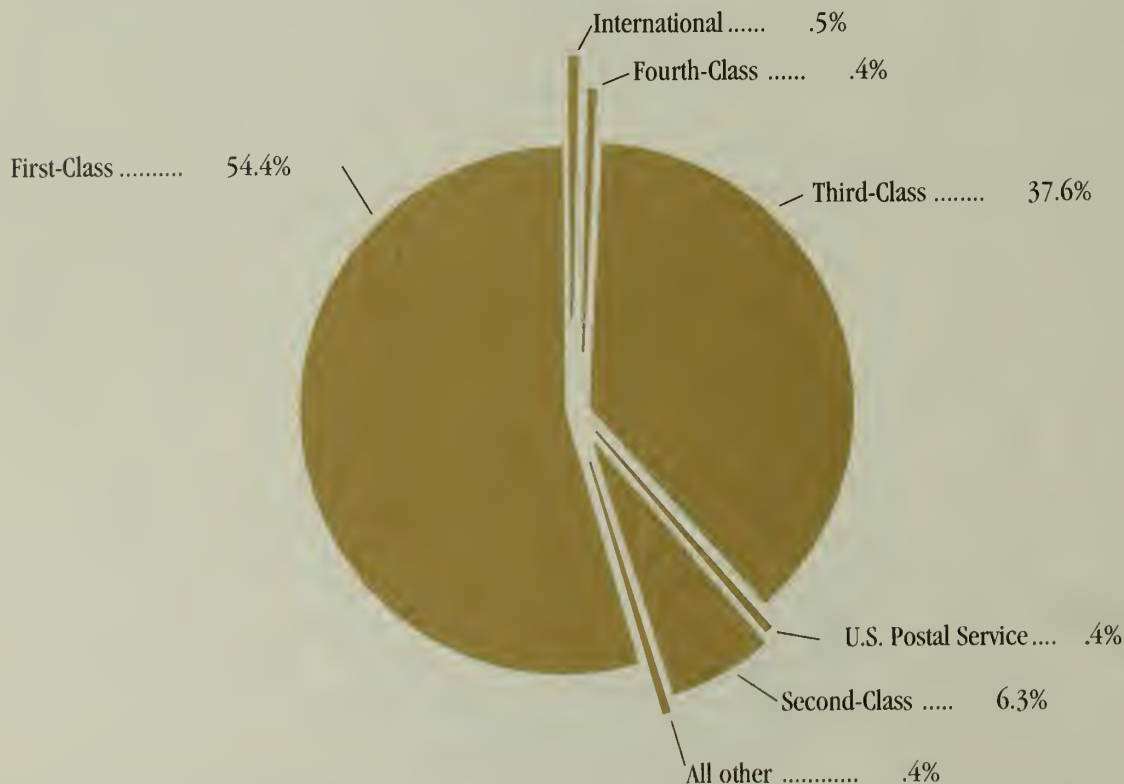
ANALYSIS OF MAIL VOLUME, FISCAL YEAR 1991

	(pieces in billions)		PERCENT
	1991	1990	CHANGE
First-Class	90.28	89.27	1.1
Second-Class	10.40	10.68	-2.6
Third-Class	62.43	63.73	-2.0
Fourth-Class	.70	.66	4.9
U.S. Postal Service	.61	.54	13.8
International	.79	.80	-.7
All other	.64	.63	1.6
Total Mail	<u>165.85</u>	<u>166.31*</u>	-.3

* Rounding the various classes of mail causes the total volume figure to exceed the Fiscal Year annual mail volume of 166.30 billion pieces.

COMPOSITION OF MAIL, FISCAL YEAR 1991

(PERCENT OF TOTAL, VOLUME BY CLASS)



OPERATING STATISTICS

	1991	1990	1989	1988	1987
(in thousands of units indicated)					
FIRST-CLASS					
Pieces, number	90,284,596	89,269,649	85,855,458	84,749,464	78,869,309
Weight, pounds	3,398,026	3,339,790	3,216,108	3,174,064	2,970,439
Revenue	\$26,648,534	\$24,023,323	\$23,234,417	\$21,402,234	\$18,786,027
PRIORITY MAIL					
Pieces, number	530,407	517,850	470,831	436,735	354,331
Weight, pounds	1,017,227	1,007,067	939,318	924,666	763,085
Revenue	\$ 1,764,601	\$ 1,554,656	\$ 1,415,820	\$ 1,329,170	\$ 1,085,636
EXPRESS MAIL					
Pieces, number	57,968	58,582	53,308	45,628	41,531
Weight, pounds	107,158	112,451	98,810	84,592	76,832
Revenue	\$ 667,988	\$ 630,707	\$ 571,992	\$ 523,804	\$ 498,733
MAILGRAM					
Pieces, number	11,942	14,001	16,871	19,617	21,900
Revenue	\$ 7,452	\$ 8,477	\$ 10,193	\$ 11,831	\$ 13,361
SECOND-CLASS					
Pieces, number	10,399,202	10,680,469	10,523,374	10,483,435	10,324,309
Weight, pounds	4,014,545	4,233,113	4,169,919	4,118,140	4,012,421
Revenue	\$ 1,667,801	\$ 1,509,346	\$ 1,519,267	\$ 1,400,115	\$ 1,279,847
THIRD-CLASS					
Pieces, number	62,429,896	63,725,110	62,779,116	63,249,821	59,733,198
Weight, pounds	7,386,612	7,648,088	7,478,767	7,651,602	7,155,038
Revenue	\$ 8,956,031	\$ 8,082,377	\$ 7,923,511	\$ 7,311,334	\$ 6,147,551

OPERATING STATISTICS

	1991	1990	1989	1988	1987
(in thousands of units indicated)					
FOURTH-CLASS					
Pieces, number	695,393	662,977	625,932	673,769	615,230
Weight, pounds	2,074,460	2,109,342	2,196,129	2,335,516	2,178,673
Revenue	\$ 1,000,945	\$ 919,540	\$ 908,432	\$ 929,435	\$ 822,917
INTERNATIONAL SURFACE					
Pieces, number	146,464	165,901	165,799	176,352	266,966
Weight, pounds	133,952	146,216	139,443	137,986	148,138
Revenue	\$ 221,439	\$ 222,123	\$ 216,848	\$ 192,884	\$ 205,896
INTERNATIONAL AIR					
Pieces, number	646,338	632,364	558,056	549,874	510,850
Weight, pounds	102,077	102,397	88,465	84,511	67,774
Revenue	\$ 984,573	\$ 941,078	\$ 864,308	\$ 798,750	\$ 751,256
PENALTY*					
Pieces, number	—	—	—	—	2,644,744
Weight, pounds	—	—	—	—	452,841
Revenue	—	—	—	—	\$ 844,158
FRANKED*					
Pieces, number	—	—	—	—	507,019
Weight, pounds	—	—	—	—	13,875
Revenue	—	—	—	—	\$ 63,164
U.S. POSTAL SERVICE**					
Pieces, number	612,545	538,427	527,791	530,402	—
Weight, pounds	79,624	97,388	66,323	64,014	—
FREE FOR THE BLIND					
Pieces, number	35,859	35,440	26,728	38,528	41,187
Weight, pounds	26,299	30,235	18,463	30,756	41,999
TOTALS					
Pieces, number	165,850,610	166,300,770	161,603,264	160,953,625	153,930,574
Weight pounds	18,339,980	18,826,087	18,411,745	18,605,847	17,881,115
Revenue	\$ 41,919,364	\$ 37,891,627	\$ 36,664,788	\$ 33,899,557	\$ 30,498,546

*Beginning in Fiscal Year 1988, Penalty and Franked mail are included in their classes of mail. Volume data for 1987 is not comparable with later years.

**Beginning in Fiscal Year 1988, U.S. Postal Service official mail, formerly included with Penalty mail, is shown separately.

OPERATING STATISTICS

SPECIAL SERVICES	1991	1990	1989	1988	1987
(in thousands of units indicated)					
REGISTRY					
Number of articles					
(paid and free)	41,190	45,312	48,939	50,280	52,427
Revenue	\$ 147,250	\$ 173,725	\$ 181,270	\$ 184,808	\$ 159,514
CERTIFIED					
Number of pieces					
(paid and free)	209,033	191,032	176,540	176,755	160,602
Revenue	\$ 362,370	\$ 309,652	\$ 284,394	\$ 260,897	\$ 222,973
INSURANCE					
Number of articles					
(paid and free)	35,645	33,102	34,878	35,151	40,006
Revenue	\$ 54,234	\$ 47,250	\$ 48,869	\$ 48,175	\$ 51,733
COLLECTION-ON-DELIVERY					
Number of articles	8,690	9,926	10,049	9,604	10,405
Revenue	\$ 25,577	\$ 26,093	\$ 26,993	\$ 20,678	\$ 19,569
SPECIAL DELIVERY					
Number of articles					
(paid and free)	2,101	1,161	2,212	5,311	8,440
Revenue	\$ 14,441	\$ 6,345	\$ 12,042	\$ 20,196	\$ 25,144
MONEY ORDERS					
Number issued	162,453	155,141	150,407	144,049	141,977
Revenue fees	\$ 148,146	\$ 154,588	\$ 147,771	\$ 141,510	\$ 147,525
OTHER					
Box rent revenue	\$ 412,625	\$ 393,807	\$ 362,318	\$ 295,630	\$ 273,262
Stamped envelope revenue	\$ 12,955	\$ 25,181	\$ 15,883	\$ 22,927	\$ 18,434
Other revenue, net	\$ 225,642	\$ 173,137	\$ 234,347	\$ 141,375	\$ 111,412
TOTALS					
Special services revenue	\$ 1,403,240	\$ 1,309,778	\$ 1,313,887	\$ 1,136,196	\$ 1,029,566
Mail revenue	\$41,919,364	\$ 37,891,627	\$ 36,664,788	\$ 33,899,557	\$ 30,498,546
Operating revenue	<u>\$43,322,604</u>	<u>\$ 39,201,405</u>	<u>\$ 37,978,675</u>	<u>\$ 35,035,753</u>	<u>\$ 31,528,112</u>

OPERATING STATISTICS

	1991	1990	1989	1988	1987
EMPLOYEES*					
Headquarters—L'Enfant Plaza	2,408	2,291	2,278	2,323	2,112
Headquarters—Field Support Units	5,715	5,691	5,882	5,703	5,820
Inspection Service (field)	4,316	4,259	4,276	4,176	4,300
FIELD CAREER EMPLOYEES					
Regional Offices	559	542	431	437	432
Postmasters	27,100	26,995	27,242	27,846	27,809
Supervisors	43,801	43,458	44,793	44,401	43,297
Prof. Admin. Tech. Personnel	9,888	9,793	10,528	10,587	10,620
Clerks	280,918	290,380	300,908	304,120	303,470
Nurses	296	286	318	332	329
Mail Handlers	50,770	51,123	52,295	51,855	50,718
City Delivery Carriers	232,182	236,081	240,159	240,276	233,516
Motor Vehicle Operators	7,265	7,308	7,357	7,326	7,221
Rural Delivery Carriers & Substitutes					
on Unassigned Routes	42,876	42,252	40,802	39,489	36,955
Special Delivery Messengers	1,870	2,012	2,142	2,191	2,256
Bldg. & Equip. Maintenance Personnel	34,166	33,323	33,348	33,119	31,713
Vehicle Maintenance Personnel	4,831	4,874	4,956	4,902	4,770
Total Career Employees	<u>748,961</u>	<u>760,668</u>	<u>777,715</u>	<u>779,083</u>	<u>765,338</u>
NON-CAREER EMPLOYEES					
Casuals	25,666	26,829	21,209	32,424	14,483
Non-Bargaining Temporary	548	414	371	286	308
Rural Subs/RCA/RCR/AUX	44,020	43,373	42,355	41,122	38,987
PM Relief/Leave Replacements	12,198	11,979	11,902	11,987	11,675
OFFICES, STATIONS, AND BRANCHES					
Number of post offices	28,912	28,959	29,083	29,203	29,319
Number of stations and branches:					
Classified stations and branches	5,029	5,008	4,958	4,957	4,910
Contract stations and branches	4,427	4,397	4,297	4,294	4,087
Community post offices	<u>1,617</u>	<u>1,703</u>	<u>1,693</u>	<u>1,663</u>	<u>1,714</u>
Total	<u>11,073</u>	<u>11,108</u>	<u>10,948</u>	<u>10,914</u>	<u>10,711</u>
Grand total	<u>39,985</u>	<u>40,067</u>	<u>40,031</u>	<u>40,117</u>	<u>40,030</u>

* Complement data has been revised to conform with current method of counting career on-rolls employees using On-Rolls and Paid Employees statistics data base.

HIGHER CUSTOMER SATISFACTION

- Completed first year of external service measurement, improving overnight First-Class delivery performance over previous year.
- Worked with customers to grow discount prebarcoded mail volume over 500%.

COSTS BELOW INFLATION

- Reduced career employment, without layoffs, by almost 39,000 from peak in May 1989, resulting in a savings of \$1.1 billion in wages and benefits alone.
- Settled first four-year labor contract providing cost restraint, work force flexibility, fair wages and benefits.
- Launched the nation's largest recycling program, projected to save the American people more than \$40 million annually.

RENEWED EMPLOYEE COMMITMENT

- Initiated Striving for Excellence Together (SET), the first program providing incentive payments to employees for gains in financial improvement and customer satisfaction.
- Joined with the three management associations representing postmasters and supervisors to present first joint awards for outstanding efforts in participatory management.
- Provided more than 11 million hours of training to employees.



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ANNUAL REPORT OF THE POSTMASTER GENERAL

FISCAL YEAR 1992

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Marvin Runyon

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TO THE GOVERNORS AND CONGRESS:

If I had to pick one word to describe the Postal Service in 1992, that word would be "change."

That process began in July, after I traveled nationwide and had the opportunity to talk with postal customers, employees, unions, and management associations about how the Postal Service could improve its performance.

From that dialogue, one message became clear: The Postal Service needed to refocus its energies to satisfy and respond to the needs of customers. If the Postal Service were going to succeed in revolutionizing the way it did business, then the change would have to be customer-based and customer-driven.

To meet this challenge, we developed a 120-day plan to make the Postal Service more businesslike, setting three specific goals to:

- reduce layers of bureaucracy and postal overhead, starting at the top;
- improve service quality and customer satisfaction; and,
- hold postal rates steady by eliminating the projected \$2 billion deficit for 1993.

With help from customers, employees, unions, and management associations, we have taken some important steps to make the Postal Service more businesslike and competitive, efforts that industry observers have described as the most sweeping changes in federal government since the Eisenhower days.

We have built a new management structure—one that is leaner, flatter, and better focused on meeting customer needs.

We have improved our financial standing substantially—turning a break-even situation in 1992 into a \$474 million surplus, before making a one-time \$1 billion adjustment for early retirement expenses arising from our restructuring effort. At year's end, we are in good position to wipe out the expected 1993 deficit of \$2 billion and keep current postage rates stable for a historic fourth year—through 1994.

And, most importantly, we have succeeded in improving service quality. We have reached out to customers with expanded retail hours, more convenient acceptance procedures, and plans for new products they have requested.

I want to recognize the efforts of all postal employees in 1992 to improve our performance and build our hopes for the future. I look forward to continued improvement in 1993 and future years as we work together to make the Postal Service more accountable, credible, and competitive.

Marvin Runyon



ACCOUNTABILITY

Although postage remains a bargain for the American people, its impact on the costs of large business mailers is significant. Holding rates stable, therefore, is key to building the mail business.

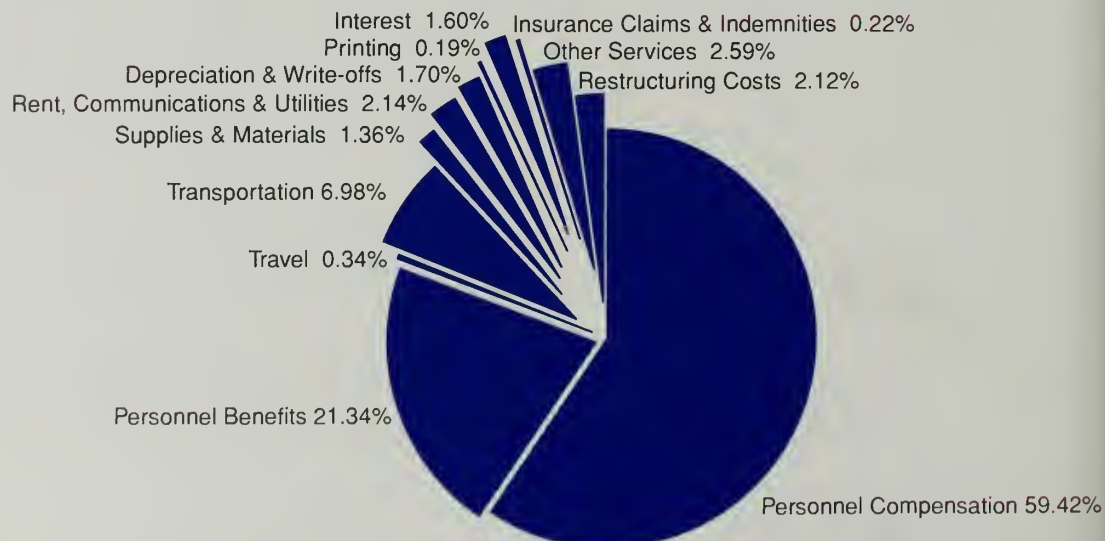
In the last 17 years, however, the basic First-Class postage rate has increased an average of 6.8 percent per year. Increases of this magnitude have severely tested the Postal Service's accountability as a supplier of quality service, reliability, and value for the dollar.

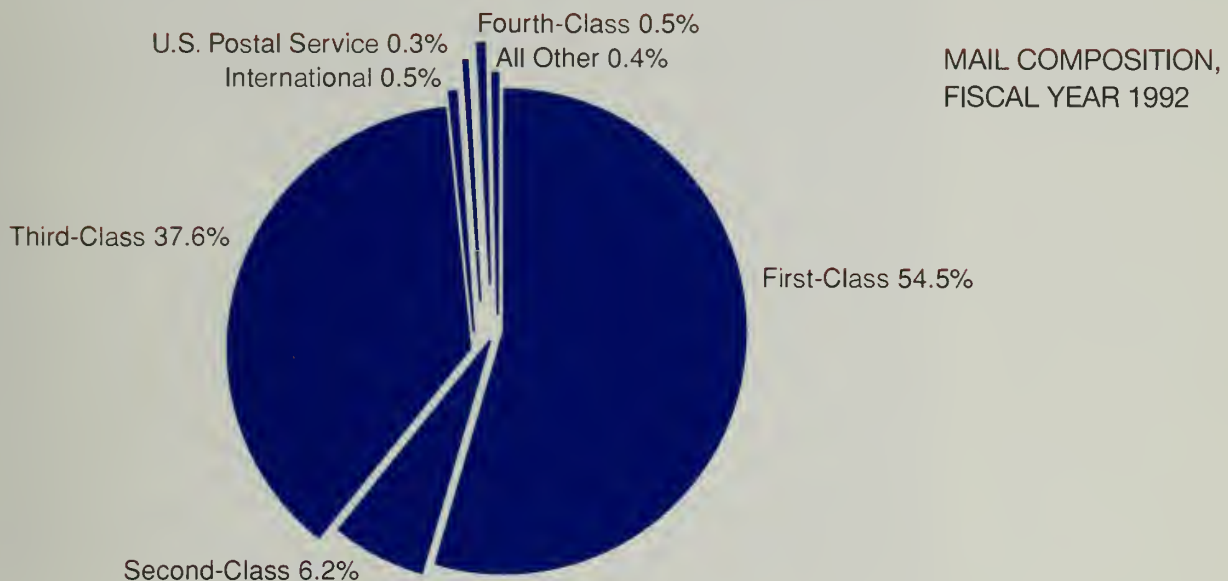
In July, it appeared that the "traditional" three-year rate cycle would repeat itself. The Postal Service was concerned about breaking even in 1992. It faced a potential deficit of \$2 billion in 1993 and, given that, the prospect of a significant rate increase in 1994, including a possible 35-cent stamp.

That is no longer the case.

Thanks to the efforts of postal employees to control costs, the Postal Service has made great progress in reducing expenses and eliminating spending on

ANALYSIS OF EXPENSES, FISCAL YEAR 1992





programs and plans not crucial to delivering the mail or serving customers.

As a result, Fiscal Year 1992 financial reports show an income of \$474 million, before factoring in restructuring costs. A \$1.01 billion accounting adjustment to reflect restructuring costs turns the income into a net loss of \$536 million. However, overhead reductions this year will save the Postal Service more than \$800 million in 1993, and about \$1.4 billion annually beginning in 1994.

But the renewed focus on cost control will go well beyond work force reductions and postal restructuring. It includes reduced spending for many headquarters programs, exploring ways to generate more revenue, and paying particular attention to automation and other operating efficiencies that will help stabilize rates and restrain the size and frequency of rate increases. At headquarters, initial cost controls led to program budget reductions of approximately \$264 million.

The Postal Service also extended its financial initiatives to explore the conversion of its 20 million check payments per year from Treasury checks to commercial bank checks to better control its cash, process disbursements more efficiently, and realize the full return on funds until they clear the banking system.



This overall effort to contain costs and benefit customers continued in November with the refinancing of some \$4.5 billion of debt at an average interest rate of 6.6 percent — down from 8.8 percent — which will reduce interest expense by \$56 million next year and \$2.2 billion over 20 years.

Innovative approaches are being taken to address the issues of automation and technology as well.

The Postal Service recognizes that the automation plan is a good, solid program and remains committed to its vision of working with business customers to barcode virtually all letter mail. However, the approach to automation and technology will change.

Based on its current financial position, the availability of emerging technologies, and the forecast of modest volume growth, the Postal Service will rely more on partnerships with private industry and less on developing prototype equipment independently.

This means the Postal Service will focus more on updating existing technology and less on exploratory projects and new equipment. This will allow the Postal Service to keep pace with rapid changes in technology but avoid buying equipment that becomes obsolete before it is deployed.

Combined, these continued efforts have placed the Postal Service in a good position to break even in 1993 and to extend current rates through at least 1994.

But there is still one hurdle to clear.

Despite the strong concern expressed by the Postal Service, Congress passed the Fiscal Year 1993 Treasury-Postal Service appropriations bill, signed into law by the President, reimbursing the Postal Service only \$122 million of the \$482 million necessary to deliver mail at free or reduced rates for various nonprofit organizations and other special-category mailers. In addition, Congress directed the Postal Service not to adjust rates, as provided by law, to recover the shortfall.



The Postal Service recognizes that the automation plan is a good, solid program and remains committed to its vision of working with business customers to barcode virtually all letter mail.

In 1993, this action will cost postal ratepayers \$360 million and follows 1991 and 1992 Congressional appropriations which postponed a total of \$156 million in revenue forgone. The cumulative total now amounts to more than a half-billion dollars and, coupled with next year's requirements, becomes a \$1 billion obligation.

Nevertheless, the Postal Service is poised to hold postage rates steady through 1994 and to make history—extending the rate cycle four years in a row for the first time since becoming a self-sufficient organization two decades ago.

With that accomplishment, and the continuing commitment of employees to provide quality service, the Postal Service will be well on its way toward establishing its greater accountability to the American public and generating the customer satisfaction needed to build its business and ensure a healthy future.



CREDIBILITY

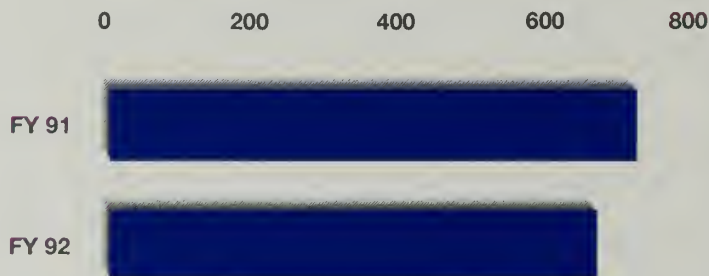
After more than 200 years of enjoying what appeared to be a comfortable monopoly, the Postal Service recognizes that its credibility with customers will suffer if it is not responsive to their needs.

Developed in what has been the Postal Service's most challenging period since postal reorganization in 1971, the new postal structure reduces duplication of effort and layers of decision-making bureaucracy and realigns resources to focus better on customer needs.

Specifically, the new structure reduced senior management at headquarters by 43 percent, from 42 officers to 24. Administrative support at postal headquarters was trimmed 33 percent to 1,683 employees, while Postal Career Executive Service positions were pared by 55 percent, or some 631 positions. In addition, approximately 30,000 overhead positions are being eliminated nationwide, after more than 47,000 postal employees took advantage of special retirement incentives offered through November 20.

TOTAL CAREER COMPLEMENT, FISCAL YEAR 1992 *(In thousands)*

During Fiscal Year 1992, the number of career employees dropped 3.2 percent to 725,290. Overhead reductions this year will save the Postal Service more than \$800 million in 1993 and about \$1.4 billion annually beginning in 1994.





The new structure places an important new focus on the customer, pinpoints management accountability, and better balances resources between the distribution, transportation, and delivery of the mail.

The field management structure also was simplified and streamlined.

At postal headquarters, the 12 vice presidents of corporate staff offices report directly to the Postmaster General and set policies in all areas to maintain consistency throughout the Postal Service. One new function, that of Diversity Development, will educate all employees about the importance of respecting the many cultural perspectives shared by employees and customers. This will allow the Postal Service to better tap the talents of all employees to improve its service and responsiveness to unique customer needs.

Support for field operations is provided by the corporate staff and nine other vice presidents who report directly to the Chief Operating Officer/Executive Vice President. (See organizational chart on pages 16 - 17.)



Customer focus will be enhanced through three functions reporting to the Chief Operating Officer and supported by the remainder of the organization.

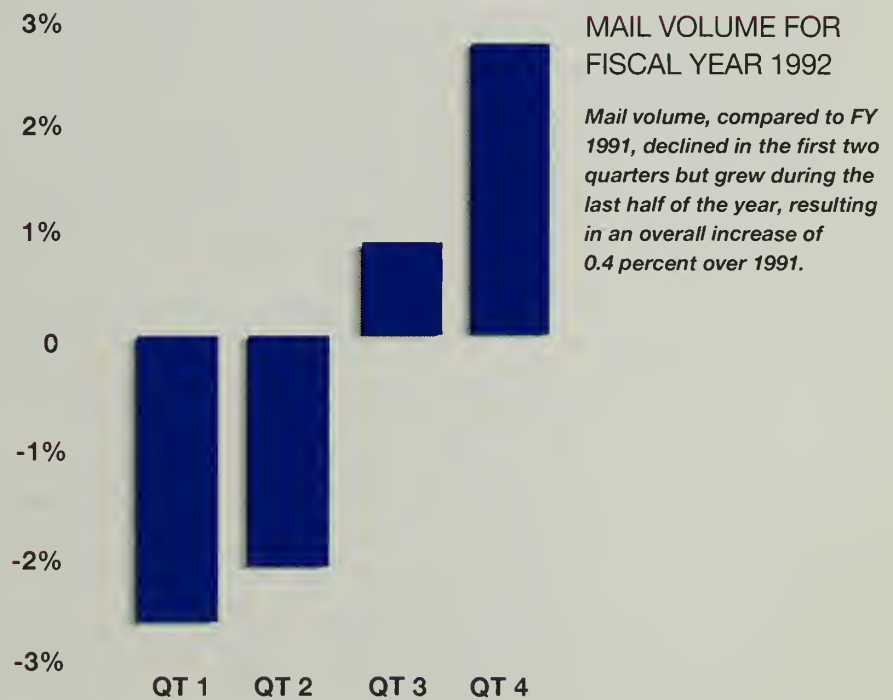


Customer focus will be enhanced through three functions reporting to the Chief Operating Officer and supported by the remainder of the organization. They are:

- Customer Services, which oversees 10 area offices and 85 customer services districts focused on delivering the mail and providing top quality business mail acceptance and retail services. Nearly 40,000 post offices, stations, and branches also will report to these units.
- Marketing and Sales, which is responsible for keeping postal products and services focused on meeting customer needs. It will oversee product and service design, pricing, market research, mailing standards, advertising and promotion, and relationships with major customers.

- Processing and Distribution, which manages 10 area offices and 349 mail processing plants focused on mail processing, distribution, and transportation. These include Processing and Distribution Centers, Bulk Mail Centers, and Airport Mail Facilities.

The new structure places an important new focus on the customer, pinpoints management accountability, and better balances resources among the distribution, transportation, and delivery of the mail.





COMPETITIVENESS

With its new corporate structure and resources focused to respond to customer needs, the Postal Service is revitalizing its competitiveness to grow profitably in the communications business.

Fully 50 percent of the Postal Service's mail volume and revenue sources are subject to some degree of direct competitive threat.

To improve its competitiveness, the Postal Service this year assembled a Competitive Services Task Force, made up of mailing industry leaders and postal officials, to identify ways in which the Postal Service could become more competitive. More than half of the 160 recommendations included in the task force's report already have been implemented, and many more are being pursued.

The Postal Service also took major steps toward improving customer satisfaction with the expansion of Postal Business Centers. Designed to reach small- and medium-sized businesses, the centers offer customized service regarding automated mailing systems and postal products and services.

A Bulk Small Parcel Service, submitted to the Postal Rate Commission for approval, will increase Postal Service competitiveness in the parcel shipping market and improve its lineup of parcel services.

Under an agreement reached with the Postal Buddy Corporation this year, more than 10,000 "Postal Buddy" kiosks will be deployed nationwide over the next four years. Terminals will allow customers to electronically file address changes, significantly reducing Postal Service costs associated with handling some 40 million change-of-address notices each year.



In August, areas of South Florida and Louisiana were devastated by Hurricane Andrew — the worst natural disaster ever to hit the United States. Three weeks later, Hurricane Iniki blasted the Hawaiian island of Kauai.

In the face of adversity, employee spirit, pride, and dedication triumphed to maintain essential postal services under the most extraordinary circumstances.

In May, three days of rioting in Los Angeles following the Rodney King court decision closed 11 postal or contract stations serving 17 ZIP Code areas. In August, areas of South Florida and Louisiana were devastated by Hurricane Andrew — the worst natural disaster ever to hit the United States. Three weeks later, Hurricane Iniki blasted the Hawaiian island of Kauai.

To reduce hardship on customers in communities where street delivery was impossible, postal employees — many of whom also had their homes damaged or destroyed — handed out hundreds of thousands of pieces of mail to area residents who showed up at temporary post offices.

Even during more normal times, postal employees nationwide seemed to work minor miracles to process and deliver more than 550 million pieces of mail each day.



During the holiday mailing season... lobby directors in 7,200 post offices assisted customers during busy periods, while 5,200 offices nationwide extended their retail hours — some opening their doors for the first time on Saturdays and Sundays.



But the Postal Service cannot rely only on its own perceptions of service levels and customer satisfaction.

The Postal Service independently measures First-Class Mail delivery and — through its Customer Satisfaction Index (CSI) — assesses overall customer satisfaction with a wide range of services. The CSI allows managers to assess customer satisfaction and identify problem areas at an operational level each quarter.

During the holiday mailing season, an aggressive “We Deliver For Yule” campaign conveyed the Postal Service’s renewed commitment to customer service and satisfaction. Lobby directors in 7,200 post offices assisted customers during busy periods, while 5,200 offices nationwide extended their retail hours — some opening their doors for the first time on Saturdays and Sundays.

Extending customer service outside postal lobbies, the Postal Service completed tests of stamp sales at more than 400 automated teller machine (ATM) locations. That program is available to banks nationwide and provides customers with a convenient way to get stamps 24 hours a day, 365 days a year.

As the Postal Service strives to improve existing products, services, and customer satisfaction, it does so knowing that it also must build stronger partnerships among its work force — changing the corporate culture.

The Postal Service is accomplishing this, first, by opening lines of communications with its employees — seeking their ideas and suggestions — and then listening.

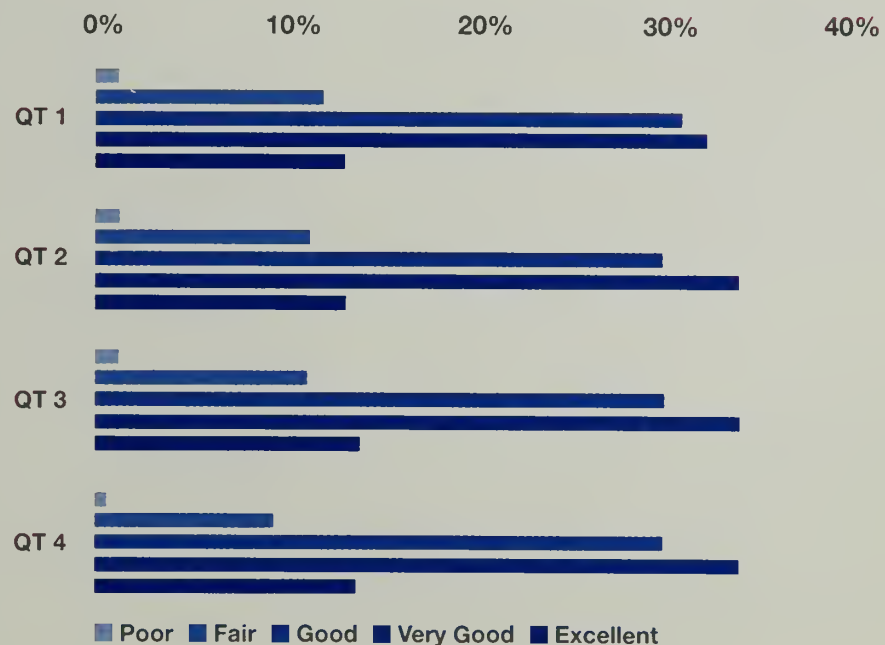
Second, by involving all workers in the decision-making process, and recognizing each employee's values and skills, the new structure empowers employees to correct errors and improve performance.

And, third, the Postal Service is examining its goal-setting and performance-evaluation processes. New standards of excellence, and the criteria for rewarding them, will be tied to a participative process — with input and buy-in from all employees — that promotes customer service as the most important goal.

The Postal Service will know it has succeeded when customers ask for its services — not the competition's — and when quality, competitiveness, and value come to mind each time they think of the Postal Service.

CUSTOMER SATISFACTION INDEX, FISCAL YEAR 1992

In Postal Quarter 4, 87 percent of the households nationwide rated their overall experiences with the Postal Service as "excellent," "very good," or "good." That was an improvement of two percentage points over the same period last year.





GOVERNORS OF THE UNITED STATES POSTAL SERVICE



*Above seated left to right:
Susan E. Alvarado, LeGree S.
Daniels, John N. Griesemer,
Norma Pace. Standing:
Robert Setrakian, Bert H.
Mackie, J. Sam Winters,
Crocker Nevin, Tirso del
Junco, M.D.*

Norma Pace, *Chairman of the Board of Governors*, is an economist and consultant to several major corporations. She is President of Economic Consulting and Planning, Inc., an economic counseling and strategic planning firm. She is the author of numerous articles for business publications on forecasting and the use of forecasting in business planning. She was appointed to the Board in May 1987 for a term expiring in December 1994.

John N. Griesemer, *Vice Chairman of the Board of Governors*, is President of the Griesemer Stone Company and General Warehouse Corporation, Springfield, MO. He became a Governor in December 1984 for a term that expired December 8, 1986. He was reappointed, without a break in service, to a full term, expiring in December 1995. He was selected Chairman of the Board in January 1987 and served two years.

Susan E. Alvarado, Vice President of Operations, Akmer International, Inc., an Alexandria, VA based exporter/importer and fabricator of marble and granite, was appointed in July 1988 to serve on the Board for a term expiring in December 1996. Prior to joining Akmer, she was President of the Alvarado Group, a Washington, D.C., government relations firm. Formerly Assistant for Legislative Affairs to Assistant Minority Leader Senator Ted Stevens of Alaska — and subsequently to Vice President George Bush — she later served as Vice President for Congressional Liaison for the National Association of Broadcasters.

LeGree S. Daniels, a noted civil rights activist, was appointed to the Board in August 1990 for a term expiring in December 1998. She served as the U.S. Department of Education's Assistant Secretary for Civil Rights from 1987 to 1989. Previously, she served as Deputy Secretary of the Commonwealth of Pennsylvania.

Tirso del Junco, M.D., a Los Angeles surgeon and entrepreneur, was appointed to the Board in July 1988 for a term that expired in December 1991. He was reappointed, without a break in service, to a full term, expiring in December 2000. He founded and served as Chairman of the Board of the Los Angeles National Bank and now serves as a member of the Board of Regents of the University of California.

Bert H. Mackie, President of the Security National Bank of Enid, OK, was appointed to serve on the Board on December 9, 1988. His term will expire in December 1997. He is an ardent supporter of quality education and is a trustee of the Oklahoma Foundation for Excellence.

Crocker Nevin became a Governor in August 1986 and served the remainder of a term expiring in December 1992. He previously served on the Board of Governors from 1971 to 1977. He has an extensive background in banking, finance, and community service. As provided by law, he will continue to serve on the Board for up to one year or until a successor is appointed by the president and confirmed by the Senate.

Robert Setrakian, a San Francisco businessman, was appointed to the Board in December 1985 for a term expiring in December 1993. He previously served as Chairman of the Board of Governors from January 1989 to January 1991. He was a Commissioner of the Federal Maritime Commission from 1983 to 1985.

J. Sam Winters, a partner in the law firm of Clark, Thomas, Winters, and Newton in Austin, TX, was appointed to serve on the Board November 26, 1991, for a term expiring in December 1999. He was Chairman of the Texas Research League in 1990 and 1991, is a member of the Board of Directors of the First Interstate Bank of Texas, and is a member of the Development Board of the University of Texas in Austin.

Also members of the Board of Governors:

Marvin Runyon was named 70th Postmaster General of the United States on May 5, 1992, by the nine presidentially appointed members of the Board of Governors. He assumed his new responsibilities on July 6, after serving since 1988 as Chairman of the Board of the Tennessee Valley Authority (TVA). Before going to TVA, he had served since 1980 as President and Chief Executive Officer of Nissan Motor Manufacturing Corporation U.S.A.

Michael S. Coughlin, a career postal employee, was appointed Deputy Postmaster General in January 1987, after holding a series of top-level postal management positions. He served this year as acting Postmaster General prior to Mr. Runyon's arrival. Because of a vacancy in the position of Vice President of Finance and Planning, Mr. Coughlin also has served as Chief Financial Officer.

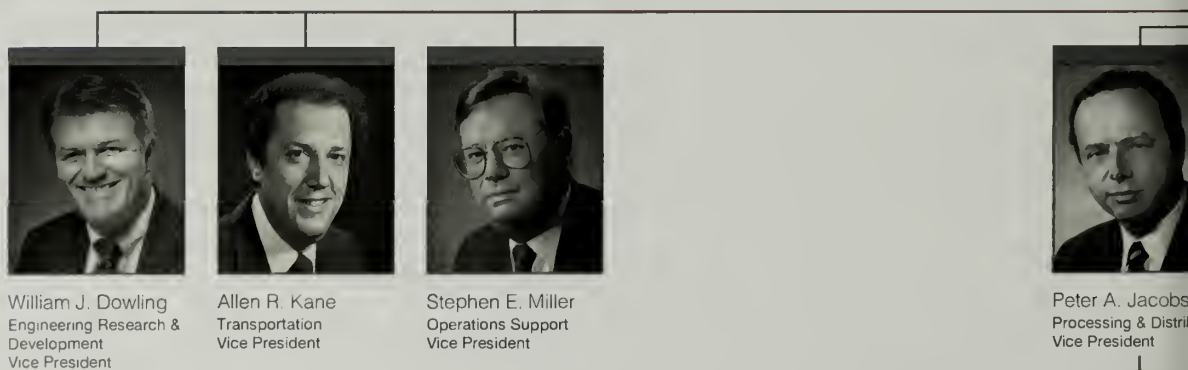
Changes during the year:

Anthony M. Frank served as the nation's 69th Postmaster General until March 25, 1992, when he resigned to return to the private sector.

Ira D. Hall, whose term expired in December 1990, continued serving on the Board until November 25, 1991, as provided by law.



ORGANIZATIONAL CHART



10
Area Offices
Processing & Distribution

349
Processing & Distribution
Facilities



John Runyon
Postmaster General
Chief Executive Officer



Michael S. Coughlin
Deputy Postmaster General



Kenneth J. Hunter
Chief Inspector



Mary S. Elcano
General Counsel
Vice President



James A. Cohen
Judicial Officer



William J. Henderson
Employee Relations
Vice President



Richard D. Weirich
Information Systems
Vice President



(Vacant)
Finance & Planning
Vice President



Joseph R. Caraveo
Chief Operating Officer
Executive Vice President



(Vacant)
Marketing & Sales
President



Samuel Green, Jr.
Customer Services
Vice President

10
Area Offices
Delivery &
Customer Services

85
Customer Services
Districts



Patricia M. Gibert
Customer Service
Support
Vice President



Mitchell H. Gordon
Facilities
Vice President



Darrah C. Porter
Purchasing
Vice President



NATIONAL AREA MAP



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FAX: (303) 391-5002



FINANCIAL STATEMENTS

Summary Balance Sheets

United States Postal Service

	September 30, 1992	September 30, 1991
	(dollars in thousands)	
Assets		
Current assets		
Cash and cash equivalents	\$ 335,105	\$ 711,035
U.S. Government securities, at cost	4,514,054	3,196,694
Receivables, net	784,923	656,573
Supplies, advances and prepayments	393,297	298,966
Total current assets	<u>6,027,379</u>	<u>4,863,268</u>
Other assets, principally supplemental appropriations receivable	160,791	96,583
Property and equipment, at cost		
Buildings	9,481,162	8,401,231
Equipment	6,450,687	5,632,196
Land	1,649,050	1,491,820
	<u>17,580,899</u>	<u>15,525,247</u>
Less allowances for depreciation	5,393,301	4,844,600
	<u>12,187,598</u>	<u>10,680,647</u>
Construction in progress	2,265,387	2,206,249
Leasehold improvements, net of amortization	243,470	221,761
	<u>14,696,455</u>	<u>13,108,657</u>
Deferred retirement costs	<u>26,780,085</u>	<u>25,196,942</u>
	<u>\$47,664,710</u>	<u>\$43,265,450</u>

	September 30, 1992	September 30, 1991
(dollars in thousands)		
Liabilities and Net Capital Deficiency		
Current liabilities		
Compensation and benefits	\$ 3,280,632	\$ 3,138,684
Accrued restructuring costs	1,010,000	—
Estimated prepaid postage	1,501,000	1,496,000
Payables and accrued expenses	1,226,563	910,643
Prepaid permit mail and box rentals	1,045,400	978,760
Outstanding postal money orders	632,703	573,969
Current portion of long-term debt	<u>750,785</u>	<u>302,048</u>
Total current liabilities	9,447,083	7,400,104
Long-term debt, less current portion	9,173,294	8,138,375
Other liabilities		
Amounts payable for retirement benefits	25,717,078	24,242,503
Workers' compensation costs	4,080,000	3,521,000
Retroactive assessment payable to the U.S. Government	1,088,936	1,397,082
Employees' accumulated leave	1,310,692	1,195,712
Other	<u>130,743</u>	<u>117,610</u>
	32,327,449	30,473,907
Net capital deficiency		
Capital contributions of the U.S. Government	3,033,753	3,033,471
Deficit since reorganization	(6,316,869)	(5,780,407)
Total net capital deficiency	<u>(3,283,116)</u>	<u>(2,746,936)</u>
	<u>\$47,664,710</u>	<u>\$43,265,450</u>



Statements of Operations and Changes in Net Capital Deficiency

United States Postal Service

	Years Ended September 30,	
	1992	1991
	(dollars in thousands)	
Operating revenue	\$46,695,800	\$43,884,472
Operating expenses		
Compensation and benefits	38,391,021	36,076,230
Other	<u>7,520,848</u>	<u>7,214,553</u>
	<u>45,911,869</u>	<u>43,290,783</u>
Income before interest, restructuring costs, and extraordinary retroactive assessment	783,931	593,689
Interest income	409,196	317,763
Interest expense on borrowings	(638,157)	(479,417)
Imputed interest on retroactive assessment for employee benefits	(81,432)	(90,507)
Income before restructuring costs and extraordinary retroactive assessment	473,538	341,528
Restructuring costs	(1,010,000)	-
Extraordinary retroactive assessment for employee benefits	<u>-</u>	<u>(1,810,142)</u>
Net loss	(536,462)	(1,468,614)
Net capital deficiency — beginning of year	(2,746,936)	(1,277,666)
Capital equipment transfers from (to) the U.S. Government	<u>282</u>	<u>(656)</u>
Net capital deficiency — end of year	<u>(\$ 3,283,116)</u>	<u>(\$ 2,746,936)</u>

Financial and Operating Highlights

	Year Ended Sept. 30, 1992	Year Ended Sept. 30, 1991	Year Ended Sept. 30, 1990	Year Ended Sept. 30, 1989	Year Ended Sept. 30, 1988
Pieces of mail (millions)	166,443	165,851	166,301	161,603	160,954
Percent change	0.4	-0.3	2.9	0.4	4.6
<i>(dollars in millions)</i>					
Revenue from operations	\$46,151	\$43,323	\$39,201	\$37,979	\$35,036
Percent change	6.5	10.5	3.2	8.4	11.1
Public service appropriation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue forgone appropriation*	\$ 545	\$ 562	\$ 453	\$ 436	\$ 517
Percent change	-3.1	24.1	3.9	-15.6	-20.5
Total operating expenses	\$45,912	\$43,291	\$40,490	\$38,371	\$36,119
Percent change	6.1	6.9	5.5	6.2	11.1
Net interest (expense) income	(\$ 310)	(\$ 253)	(\$ 38)	\$ 17	(\$ 31)
Operating income (loss), net of interest	\$ 474	\$ 341	(\$ 874)	\$ 61	(\$ 597)
Extraordinary retroactive assessment – OBRA 1990	–	(\$ 1,810)	–	–	–
Restructuring costs	(\$ 1,010)	–	–	–	–
Net (loss) income	(\$ 536)	(\$ 1,469)	(\$ 874)	\$ 61	(\$ 597)
Fixed assets (net of depreciation)**	\$14,696	\$13,109	\$11,523	\$10,336	\$ 9,537
Percent change	12.1	13.8	11.5	8.4	14.3
Net capital deficiency	(\$ 3,283)	(\$ 2,747)	(\$ 1,278)	(\$ 402)	(\$ 460)
<i>(in units indicated)</i>					
U.S. resident population January 1 estimate (in millions)***	253.6	250.9	248.2	245.7	243.5
Percent change	1.1	1.1	1.0	1.0	0.9
Pieces of mail per capita	656	661	670	658	661
Percent change	-0.8	-1.3	1.8	-0.5	3.6
Operating revenue per capita	\$ 181.98	\$ 172.68	\$ 157.96	\$ 154.55	\$ 143.89
Percent change	5.4	9.3	2.2	7.4	10.1
Operating expense per piece of mail	27.58¢	26.10¢	24.35¢	23.74¢	22.44¢
Percent change	5.7	7.2	2.6	5.8	6.2
Operating revenue per piece of mail	27.73¢	26.12¢	23.57¢	23.50¢	21.77¢
Percent change	6.2	10.8	0.3	7.9	6.3
Net (loss) income per piece of mail	(0.32¢)	(0.89¢)	(0.53¢)	0.04¢	(0.37¢)
Career employees	725,290	748,961	760,668	777,715	779,083
Percent change	-3.2	-1.5	-2.2	-0.2	1.8

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate in accordance with Congressional statute. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

** Fiscal Year 1988-1991 data recast to include construction in progress.

*** 1988-1990 data recast to reflect 1990 census information.



*This annual report is printed
on recycled paper, using
environmentally safe inks.*

United States Postal Service
475 L'Enfant Plaza SW
Washington DC 20260-0010

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Pl.1:
993

Annual Report of the Postmaster General

Fiscal Year 1993

GUIDING PRINCIPLES

The Postal Service is committed to:

PEOPLE

Diversity is valued; everyone must be treated with dignity and respect. Training and information must be provided to employees. Preparation strengthens teamwork and participation in decision making, which are essential to customer and job satisfaction.

CUSTOMERS

We will achieve the highest possible levels of satisfaction with every service encounter. Customer satisfaction is essential to the health and growth of our business.

EXCELLENCE

We stand for continuous improvement, positive change, and making breakthroughs in what we do and how we work. Each of us will bring our finest efforts to bear on each task and each endeavor, all the while looking for better, easier, faster, and simpler ways to serve our customers, achieve our goals, and improve our performance.

INTEGRITY

We will be worthy of the trust given us by the American people. We will act with integrity in every encounter and relationship with postal customers, business partners, and each other.

COMMUNITY RESPONSIBILITY

We will build upon our legacy of more than 200 years of service to the nation by meeting the changing needs of the communities we serve into the next century.



**UNITED STATES
POSTAL SERVICE™**

"Year after year, we've been one of the most highly rated service organizations in both government and the private sector. Despite this success, our competition is growing more fierce every day. It's coming at us from all sides. ... All of this competition makes it imperative that we continue to build customer satisfaction and improve the quality of our products and services."

Marvin Runyon
Consumer Affairs
National Conference
Potomac, Maryland
September 1, 1993





The Library of the

MAR 04 1994

University of Illinois
at Urbana-Champaign

Our Purpose, Vision, and Guiding Principles

Purpose

Our purpose is to provide every household and business across the United States with the ability to communicate and conduct business with each other and the world through prompt, reliable, secure, and economical services for the collection, transmission, and delivery of messages and merchandise.

Vision

Our postal products will be recognized as the best value in America. We will evolve into a premier provider of 21st-century postal communications. We will be the most effective and productive service in the federal government and markets that we serve.

Guiding Principles

The Postal Service is committed to:

- People
- Customers
- Excellence
- Integrity
- Community Responsibility

Our Goals

Customer Satisfaction:

Customer satisfaction means providing products and services of such high value that customers choose them as the preferred means for handling their messages, merchandise, and transactions.

Commitment to Employees:

Commitment to employees recognizes the postal work force as our most important resource. By demonstrating this commitment, the Postal Service will, in turn, earn a competitive advantage from the increased teamwork and initiative of its employees.

Revenue Income Generation:

We will maintain the financial stability of the Postal Service by constantly extending our customer base through new and improved products and services. We will generate new business and capture efficiencies so that we maintain a healthy, viable postal system.

To the Governors and Congress:

The Postal Service and its employees made considerable progress in 1993. We set ambitious goals for the year, and we met them. We kept our promises to reduce postal overhead, extend rate stability, and increase customer satisfaction.

We established the guiding principles featured in this report to ensure that we achieve our vision of an accountable, credible, competitive Postal Service, in touch with the present and future needs of its customers.

We completed one of the largest restructurings in the history of federal government, eliminating thousands of support positions without layoffs. That effort helped bring our career complement to its lowest point since 1984.

Our employees also worked hard to improve our financial condition so we could stabilize postage rates and improve our competitiveness. In early 1992, we were expected to lose \$2.2 billion during fiscal year 1993 and increase rates in 1994. We didn't let that happen. By restructuring, building our business to a record mail volume of 171 billion pieces, and improving productivity by 3.8 percent, our net loss was significantly below this original amount.

However, we also incurred some additional charges which increased our total loss for the year. These included an \$857 million charge under budget deficit legislation and a \$318 million shortfall in revenue forgone. We also incurred a \$537 million extraordinary expense to refinance part of our long-term debt. This action will save us more than \$2 billion, on an undiscounted basis, in future interest expenses.

These extras caused us to record a net loss of almost \$1.8 billion for the year; however, had we done nothing, the total loss would have been much higher. But we took some big steps to attack the deficit, and have positioned ourselves to keep postage rates steady until 1995. This will mark the first time postage rates have held steady for four straight years since the U.S. Postal Service was created more than two decades ago.

At the same time, we improved service quality, making it our top priority. Customers responded with record levels of satisfaction. During our second quarter, independent measurements showed that nearly nine out of 10 household customers surveyed approved of our service, and we remained on that plateau through the rest of the year.

The year was filled with service highlights. We provided some of the finest holiday mail service in recent memory. We expanded hours in postal lobbies and on mail receiving docks, and began to accept credit cards for purchases. We simplified regulations, forms, and procedures to make doing business with us easier.

We also did a better job processing and distributing the mail. Independent measurement showed that overnight-committed First-Class Mail service either improved or remained the same each quarter over the previous year.

During the year, we began testing a system to measure third-class mail service, and signed contracts to survey the opinions of business customers and measure the service we provide to newspapers and magazines. We also improved our tracking and tracing services to help customers keep tabs on their Express Mail packages.

The key to these service improvements was the individual and collective efforts of postal employees to reach out to customers. In 1993, thousands of employees went the extra mile during some tough weather conditions. They delivered through the "Storm of the Century" on the East Coast in March and the "Great Midwest Flood" in the summer months, often overcoming great obstacles to serve their customers. Overall, our employees did a tremendous job, improving our service quality in a new, leaner organizational structure.

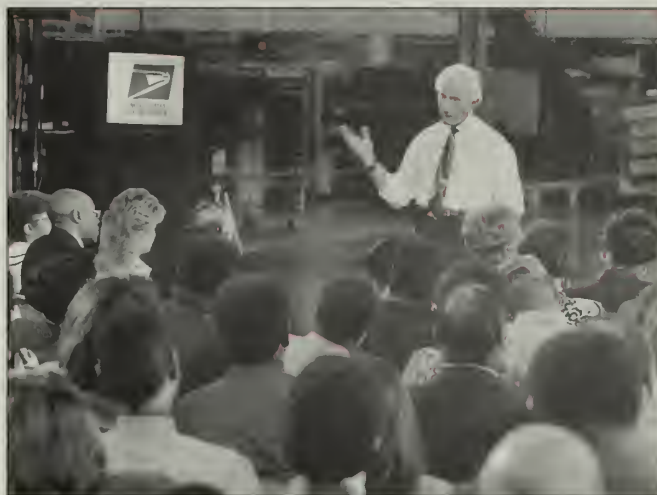
Recognizing that employee satisfaction is necessary to build customer satisfaction, we took several steps to improve working conditions and show our commitment to our people. We began allowing employees to rate their bosses' "people skills" for the first time. We created a new leadership team that includes the officers of the Postal Service and the presidents of our seven unions and management associations, and began working to set up local leadership teams across the nation. We empowered employees to serve customers, and adopted new performance-based pay systems for managers to help build teamwork and cooperation throughout the Postal Service.

These efforts paid off. Our second annual survey of employees, with responses from more than a half million employees, showed gains in many important areas. While we still have a lot of work to do, we are making progress toward a more participatory and cooperative work culture.

Overall, 1993 was a success. We improved our service quality. Just as important, we made some major changes in our attitude, setting the pace for reinventing government. Instead of just making the rounds, we are looking for opportunities to solve problems and satisfy customers. We are taking steps to think and act like a business.

We plan to build on this progress in 1994, and we expect it to be a challenging year. We will be closing out a fourth consecutive year of stable rates, filing for new rates that will affect our competitiveness for years to come, and negotiating labor contracts with three of our largest unions representing 83 percent of our career work force. To improve our performance, we have set some challenging goals to raise customer satisfaction, improve our commitment to employees, and build revenues to take the pressure off rising costs.

If we draw strength from our achievements in 1993, and tackle the challenges ahead with the same attitude and creativity, I am confident that we will continue to deliver success together.

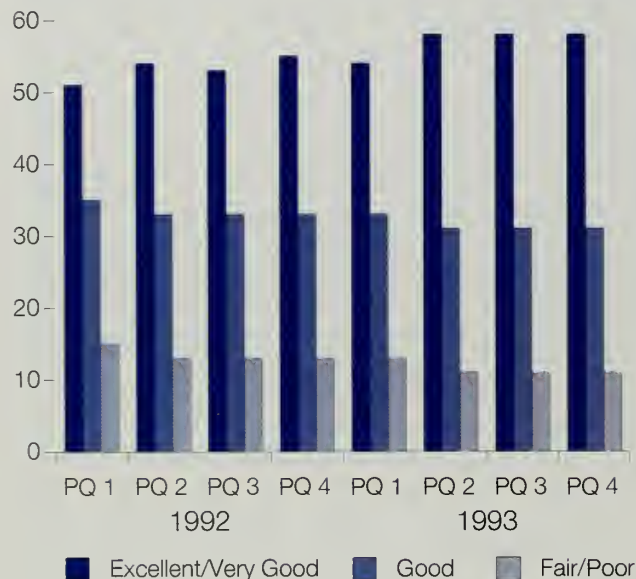


Postmaster General Marvin Runyon discusses the Purpose, Vision, and Guiding Principles at a Town Hall Meeting at the General Mail Center in Los Angeles, California.

Marvin Runyon

1993 Customer Satisfaction Highlights and Achievements

**Customer Satisfaction Index (CSI)
Overall Performance
Fiscal Years 1992-1993
(Percent)**



The Customer Satisfaction Index places the Postal Service report card in the hands of its customers. By year's end, in postal quarter 4, a record 58 percent of residential customers rated overall service as "excellent" or "very good." Twenty-seven of the 85 Customer Service Districts improved their performance in this category by five percentage points or more compared with last year.

In addition, 89 percent of the households nationwide rated their overall experiences with the Postal Service as "excellent," "very good," or "good." That was an improvement of two percentage points over the same period last year.

■ **Postal Business Centers.** Business Centers provide professional support programs that cover a broad range of mail-preparation and automation information for a customer base of some 7.5 million small- to medium-volume mailers.

■ **Service in 5 Minutes or Less** was rolled out nationally in June 1993. The national standard to be implemented in fiscal year 1994 will be to serve post office customers in five minutes or less, with each office responsible for establishing its own plans for making that goal.

■ **Adjusted Window/Bulk Mail Acceptance Hours.** Guidelines developed in fiscal year 1993 provided local offices with the tools necessary to determine how to provide service hours that meet customer needs.

■ **Postal Customer Councils**, composed of 176,000 members in 314 councils nationwide, continue to identify local customer needs and develop solutions to mailer-related problems.

■ **Postal Answer Line**, an automated telephone information service designed to provide recorded responses to common customer inquiries, operates 24 hours a day at 81 sites across the country, and handles an average of 3.9 million customer calls per year.

■ **Competitive Services Task Force.** In 1992, 61 private industry executives and 19 postal managers met to discuss what the Postal Service could do to serve customers more effectively and to be more competitive in today's marketplace. Of the task force's 183 recommendations, 155 (85 percent) have been evaluated and accepted, and more than half of them have been implemented. Topping the task force's list were recommendations to revise the *Domestic Mail Manual* and simplify regulations, restructure the organization to be more customer-focused, deploy more external measurement systems, introduce more contemporary postage payment systems, and promote the value of advertising mail to advertisers. Each of these proposals has been implemented.

■ **Customer Advisory Councils.** The number of Customer Advisory Councils continues to grow. These councils allow local postal officials to listen to their customers and hear their concerns. During fiscal year 1993, the number of councils grew from 338 to 1,262.

1993 Revenue Income Generation Highlights and Achievements

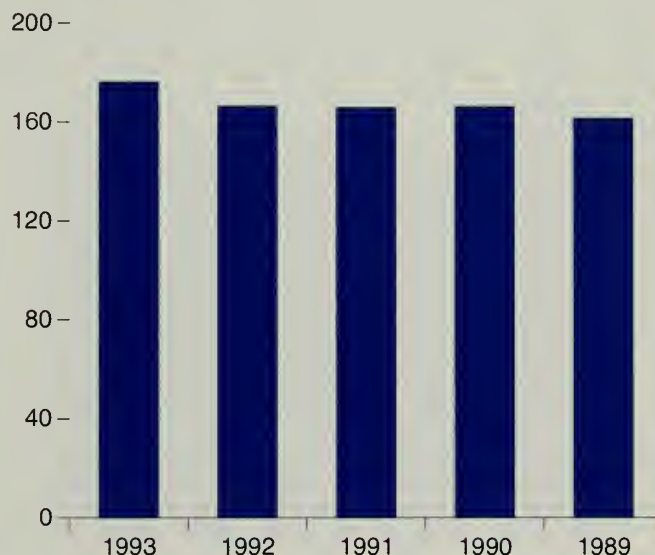
■ **Mail Volume.** Mail volume increased almost five billion pieces, or 2.9 percent, to 171 billion pieces in fiscal year 1993. First-Class Mail volume grew 1.5 percent. Most of this growth was concentrated in presort mail which grew by 4.1 percent. The average weight of First-Class Mail pieces grew by 3.5 percent. The result of this weight growth was more pieces paying charges for additional ounces, thus a revenue growth of 1.9 percent, which outstripped volume growth.

■ **Priority Mail.** Priority Mail accounted for 4.8 percent of Postal Service revenue and volume increased 13.7 percent to 664 million pieces.

■ **Easy Stamp Programs.** What started almost 20 years ago with the convenience of Stamps by Mail now has expanded to an Easy Stamp services program that offers stamp-buying alternatives to meet the busy and changing lifestyles of customers. *Stamps on Consignment* allows customers to obtain stamps at more than 27,000 businesses nationwide and generated more than \$600 million in revenue in 1993. *Stamps by Mail* has more than tripled in the last four years, with sales reaching \$66 million in 1993. Orders are filled and returned within five business days and there is no service charge. *Stamps by Phone* sales grew to more than \$5 million. *Stamps by PRODIGY* is available to customers who own home computers and subscribe to the PRODIGY service. *Stamps by ATM*, the newest Easy Stamp service, allows customers to purchase stamps from select ATMs nationwide.

■ **Bank/Credit Card Acceptance.** The Postal Service now accepts credit and debit cards at 555 post offices in the Dallas/Fort Worth, Texas; Orlando, Florida; and Washington, DC, metropolitan areas as part of a test designed to increase customer convenience. The benefits of accepting credit and debit cards include increased revenue generation in competitive products such as Express Mail and Priority Mail.

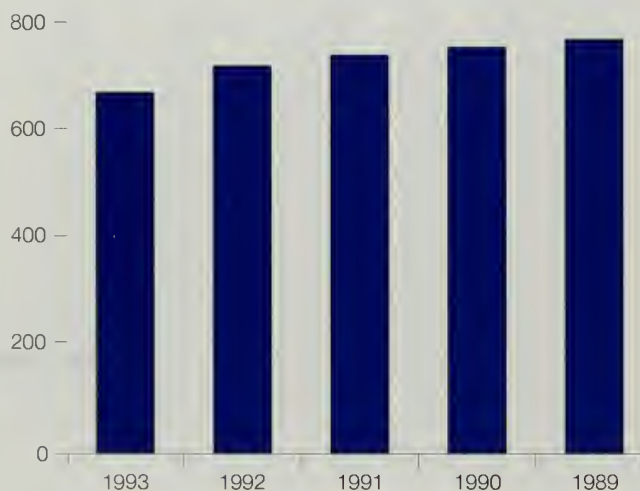
**Mail Volume Comparison
Fiscal Years 1989-1993
(In billions)**



Mail volume steadily increased throughout the year, resulting in an overall increase of 2.9 percent over 1992.

1993 Commitment to Employees Highlights and Achievements

**Total Career Complement
Fiscal Years 1989-1993
(In thousands)**



During fiscal year 1993, the number of career employees dropped 4.6 percent to 691,723.

■ **Employee Opinion Survey.** The results of two nationwide Employee Opinion Surveys were released in 1993. Designed as a vehicle for cultural change within the Postal Service, the surveys reflected the strengths and weaknesses of the organization and indicated a recognition of the need for overall structural changes. In the first survey, conducted in 1992, employees favorably ranked the categories of pay, benefits, and job security. The survey revealed that employees enjoyed their work and expressed pride in working for the Postal Service. In response to the many cultural and managerial changes implemented throughout the year, the results of the 1993 Employee Opinion Survey showed improvement in several areas. Employees reported that the Postal Service was doing a better job delivering quality service, improving relationships, and making the organization a better place to work. The 1993 survey also indicated the need to focus on working conditions, employee feedback and cooperation, and the recognition of quality performance.

■ **360-degree Feedback.** Postal officers and Postal Career Executive Service managers will have to demonstrate they have "people skills" along with other managerial talents to get promoted in the Postal Service. Officers and executives in fiscal year 1993 were reviewed by their staffs, peers, and managers, in addition to completing a self-analysis using a questionnaire developed by PDI Inc. of Minneapolis, Minnesota.

■ **Performance Clusters.** Another "culture" change coming out of the 1992 restructuring, this concept calls for key managers at the plant and district levels to form teams called performance clusters. This concept of team effort and shared reward based on goal achievement is a major break with past postal pay systems.

■ **PMG Town Hall Meetings.** To acquaint employees with issues of importance to them — and to get their feedback and ideas — the Postmaster General and other officers conducted four employee town hall meetings. In Dallas, Texas, Employee Opinion Survey results were discussed. In Brockton, Massachusetts — site of the first Customer Satisfaction Index score of 98 percent — service was the topic. In Minneapolis/St. Paul, Minnesota, postal finances were discussed, and in Los Angeles, California, employees were cited for their commitment to the Purpose, Vision, and Guiding Principles.

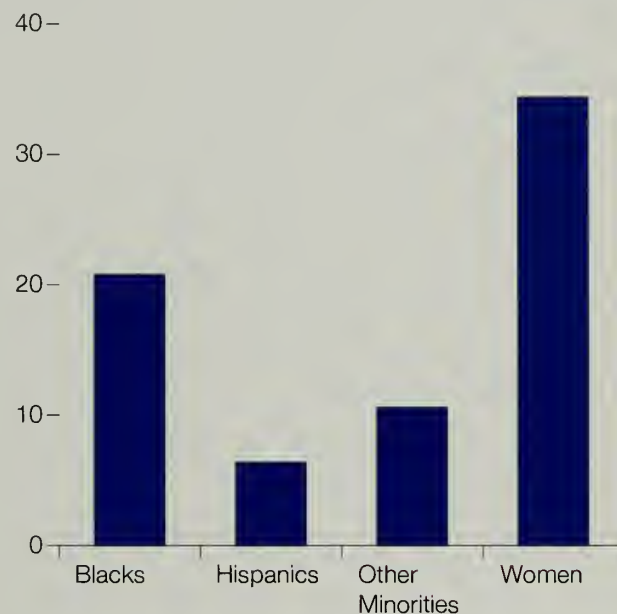
1993 Commitment to Employees Highlights and Achievements

■ **Diversity Development.** The creation of a Diversity Development function in 1992 has been a major contributor to cultural and management change within the Postal Service. This function serves both postal employees and customers by ensuring that the organization recognizes and appreciates the needs of all members of our culturally diverse society. There are four major functions within Diversity Development: Affirmative Action, Customer Interface, Vendor Programs, and Policies and Planning. In addition, an Education and Research team operates as a direct reporting function to the vice president of Diversity Development. This team conducts education and orientation programs, develops methodology for cultural assessments, and assists in the analysis of the Employee Opinion Survey.

■ **Employee Training/Development.** The former Training and Development Department was completely restructured. Resident technical training remains based in Norman, Oklahoma, while non-technical training — renamed Management and Employee Development — is now located in Chicago, Illinois. The Technical Training Center used both distant learning devices, such as satellite training and audio teletraining, and on-site field training to reach more than half of its 21,000 students in 1993. The revision of supervisory and managerial leadership courses focused on incorporating desired cultural change into daily operations of the Postal Service. Employees were provided behavior-style workshops, labor/management joint training ventures, team building, conflict resolution, and communications skills courses.

■ **Transition Centers.** The Postal Service established career transition centers to assist more than 1,000 headquarters and regional employees displaced by the administrative reorganization. The centers, jointly operated by the Postal Service and a career management firm, provided counseling, training, and temporary and permanent job placement assistance. Throughout this process, no employees were laid off. By November 1993, fewer than 80 employees originally assigned to the transition centers lacked permanent assignments. As a temporary accommodation, these remaining employees were given detail assignments within the organization.

**Work Force Profile
Fiscal Year 1993
(Percent)**



The Postal Service is one of the nation's leading employers of minorities and women. The Diversity Development office was established in 1992 to serve as the Postal Service's social conscience.

Throughout 1993, the office's efforts continued to increase employees' awareness of and appreciation for ethnic and cultural diversity, both in the postal workplace and among customers.

Governors of the United States Postal Service



Above, seated left to right: LeGree S. Daniels, Norma Pace, Bert H. Mackie, and Susan E. Alvarado. Standing: Tirso del Junco, M.D., Crocker Nevin, J. Sam Winters, and Robert Setrakian. David Harris, far right, is full-time secretary for the Board of Governors.

The Postal Service Board of Governors is an 11-member board comparable to the board of directors of a publicly owned corporation.

Nine of the members (the "governors") are appointed by the president with the advice and consent of the Senate. These governors select a Postmaster General, who becomes a member of the board, and those 10 select a Deputy Postmaster General, who also serves on the board. The chairman and vice chairman are elected at the January meeting each year.

The board directs and controls expenditures of the Postal Service, reviews its practices, conducts long-range planning, and sets policies on all postal matters.

The board meets monthly, usually on the first Monday and Tuesday, and takes up matters such as service standards and facility projects and other capital investments exceeding \$10 million.

Bert H. Mackie, *Chairman of the Board of Governors*, was appointed in December 1988 to be a governor for a term expiring in December 1997. He is currently president of the Security National Bank of Enid, Oklahoma, as well as a member of its board of directors.

Tirso del Junco, M.D., *Vice Chairman of the Board of Governors*, was appointed to the board in July 1988 for a term that expired in December 1991 and was reappointed to another full term expiring in December 2000. He is a Los Angeles surgeon and serves as a member of the board of regents of the University of California.

Susan E. Alvarado was appointed in July 1988 to serve on the board for a term expiring in December 1996. She is vice president of Akmer International Inc., an Alexandria, Virginia, exporter/importer and fabricator of marble and granite products.

LeGree S. Daniels was appointed to the board in August 1990 for a term expiring in December 1998. She is a member of the Penn State University Board of Advisors, Harrisburg campus, and formerly served as the U.S. Department of Education's Assistant Secretary for Civil Rights from 1987 to 1989.

Crocker Nevin first served on the Board of Governors from 1971 to 1977. He was appointed to his second term in August 1986 and served the remainder of a term expiring in December 1992. As provided by law, he served on the board one year beyond the expiration of his term. He is currently chairman of the board of CF&I Steel Corporation.

Norma Pace was appointed to the board in May 1987 for a term expiring in December 1994. She served as chairman of the Board of Governors from January 1991 to January 1993. She is president of Economic Consulting and Planning Inc. and is Senior Economic Advisor and Director of The WEFA Group.

Robert Setrakian was appointed to the board in December 1985 for a term expiring in December 1993. He previously served as Chairman of the Board of Governors from January 1989 to January 1991. He is president and chairman of the William Saroyan Foundation, Director of F.N. Financial Corporation, and First Nationwide Bank.

J. Sam Winters was appointed to serve on the board in November 1991 for a term expiring in December 1999. He is chairman of the board's Audit Committee, a member of the law firm of Clark, Thomas & Winters, and a member of the board of directors of the First Interstate Bank of Texas.

Also members of the Board of Governors:

Marvin Runyon was named 70th Postmaster General of the United States in May 1992 by the nine presidentially appointed members of the Board of Governors. Prior to his appointment, he served as chairman of the Tennessee Valley Authority.

Michael S. Coughlin, a career postal employee, was appointed Deputy Postmaster General by the board in January 1987, after holding a series of top-level postal management positions. As a ranking official in the U.S. Postal Service, he is the chief of staff for the Postmaster General.

Changes during the year:

Governor **John N. Griesemer**, reappointed to a term scheduled to end in 1995, died of a heart attack in July at his Springfield, Missouri, residence. First appointed to the Board of Governors in 1984, he served as board chairman in 1987 and again in 1988.

Officers of the United States Postal Service



Marvin Runyon



Michael S. Coughlin



Joseph R. Caraveo



Mary S. Elcano



Samuel Green Jr.



William J. Henderson



Peter A. Jacobson



Michael J. Riley



Deborah K. Bowker



David H. Charters



James A. Cohen

Officers of the Postal Service are appointed by, and serve at the pleasure of, the Postmaster General to execute and fulfill the duties of their office according to law. In selecting them, the Postal Service places special trust and confidence in their integrity and ability.

Marvin Runyon

Postmaster General and
Chief Executive Officer

William J. Henderson

Chief Marketing Officer and
Senior Vice President

Michael S. Coughlin

Deputy Postmaster General

Peter A. Jacobson

Senior Vice President
Processing and Distribution

Joseph R. Caraveo

Chief Operating Officer and
Executive Vice President

Michael J. Riley

Chief Financial Officer and
Senior Vice President, Finance

Mary S. Elcano

Senior Vice President and
General Counsel

Deborah K. Bowker

Vice President
Corporate Relations

Samuel Green Jr.

Senior Vice President
Customer Service and Sales

David H. Charters

Vice President
Quality

James A. Cohen

Judicial Officer

Veronica O. Collazo

Vice President
Diversity Development

William J. Dowling

Vice President
Engineering

Mitchell H. Gordon

Vice President
Facilities

Kenneth J. Hunter

Chief Postal Inspector

Allen R. Kane

Vice President
Product Management

Joseph J. Mahon Jr.

Vice President
Labor Relations

M. Richard Porras

Vice President
Controller

Darrah Porter

Vice President
Purchasing

Ann McK. Robinson

Vice President
Consumer Advocate

Gail G. Sonnenberg

Vice President
Marketing Systems

Richard D. Weirich

Vice President
Information Systems



Veronica O. Collazo



William J. Dowling



Mitchell H. Gordon



Kenneth J. Hunter



Allen R. Kane



Joseph J. Mahon Jr.



M. Richard Porras



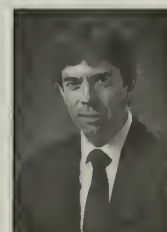
Darrah Porter



Ann McK. Robinson



Gail G. Sonnenberg



Richard D. Weirich

At the conclusion of fiscal year 1993, which ended on September 30, there were three officer vacancies. As a result of minor restructuring in August, vice presidents had yet to be assigned to the offices of Legislative Affairs, Employee Relations, and Technology Applications.

New Appointments for Fiscal Year 1994



Robert F. Harris



Suzanne J. Henry



Robert Reisner

Officers

Robert F. Harris

Vice President
Legislative Affairs
(November 1993)

Suzanne J. Henry

Vice President
Employee Relations
(November 1993)

Robert Reisner

Vice President
Technology Applications
(December 1993)



Einar V. Dyhrkopp

Governors

Einar V. Dyhrkopp was appointed to the board in November 1993. He is president and founder of Tecumseh International Corporation, a coal-marketing firm.

Processing and Distribution Area Managers

ALLEGHENY AREA

Robert J. Sheehan
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FAX: (314) 849-3952

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Customer Service and Sales Area Managers

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Financial Statements

Balance Sheets

	September 30,	
	1993	1992
	(dollars in millions)	
Assets		
Current assets		
Cash and cash equivalents	\$ 1,473.6	\$ 335.1
U.S. Government securities, at cost (current value of \$1,747.0 million in 1993 and \$4,666.5 million in 1992)	1,748.8	4,514.1
Receivables		
Foreign countries	561.1	507.9
U.S. Government	108.9	99.5
Consignment	103.3	74.5
Accrued interest and other	150.4	145.7
	<u>923.7</u>	<u>827.6</u>
Less allowances	58.3	42.7
Total receivables, net	865.4	784.9
Supplies, advances, and prepayments	390.3	393.3
Total current assets	4,478.1	6,027.4
Other assets, principally revenue forgone appropriations receivable — Note 6	202.5	160.8
Property and equipment, at cost — Note 7		
Buildings	9,970.5	9,481.2
Equipment	7,219.5	6,450.7
Land	1,715.2	1,649.0
	<u>18,905.2</u>	<u>17,580.9</u>
Less allowances for depreciation	6,106.9	5,393.3
	<u>12,798.3</u>	<u>12,187.6</u>
Construction in progress	2,503.5	2,265.4
Leasehold improvements, net of amortization	232.7	243.4
Total property and equipment, net	15,534.5	14,696.4
Deferred retirement costs — Note 5	27,066.0	26,780.1
	<u>\$ 47,281.1</u>	<u>\$ 47,664.7</u>

See accompanying notes to financial statements.

Financial Statements

Balance Sheets

	September 30,	
	1993	1992
	(dollars in millions)	
Liabilities and Net Capital Deficiency		
Current liabilities		
Compensation and benefits	\$ 3,933.7	\$ 3,292.4
Accrued restructuring costs — Note 2	118.6	1,010.0
Estimated prepaid postage	1,529.4	1,501.0
Payables and accrued expenses		
Foreign countries	714.4	613.0
U.S. Government	329.8	313.1
Other	578.5	325.8
Total payables and accrued expenses	1,622.7	1,251.9
Prepaid permit mail and box rentals	1,175.1	1,045.4
Outstanding postal money orders	698.2	632.7
Current portion of long-term debt	1,062.0	750.8
Total current liabilities	10,139.7	9,484.2
Long-term debt, less current portion (current value of \$9,534.8 million in 1993 and \$10,447.2 million in 1992) — Note 7	8,686.3	9,173.3
Other liabilities		
Amounts payable for retirement benefits — Note 5	25,915.3	25,717.1
Workers' compensation costs	4,500.0	4,080.0
Retroactive assessments payable to the U.S. Government — Note 3	1,528.4	1,088.9
Employees' accumulated leave	1,398.1	1,325.3
Other	161.0	79.0
	33,502.8	32,290.3
Commitments and contingencies — Notes 8 and 9		
Net capital deficiency		
Capital contributions of the U.S. Government	3,034.1	3,033.8
Deficit since reorganization	(8,081.8)	(6,316.9)
Total net capital deficiency	(5,047.7)	(3,283.1)
	\$ 47,281.1	\$ 47,664.7

See accompanying notes to financial statements.

Financial Statements

Statements of Operations and Changes in Net Capital Deficiency

	Years ended September 30,	
	1993	1992
	(dollars in millions)	
Operating revenue — Note 6	\$ 47,582.0	\$ 46,695.8
Operating expenses		
Compensation and benefits — Notes 4 and 5	38,447.7	37,122.0
Other	7,744.9	7,520.9
Restructuring costs — Note 2	129.0	1,010.0
	<u>46,321.6</u>	<u>45,652.9</u>
Income from operations	1,260.4	1,042.9
Interest and investment income	404.2	409.2
Interest expense on unfunded retirement liabilities — Note 5	(1,345.9)	(1,269.0)
Interest expense on borrowings	(620.2)	(638.2)
Imputed interest on OBRA 1990 retroactive assessment for employee benefits — Note 3	<u>(69.9)</u>	<u>(81.4)</u>
Loss before OBRA 1993 retroactive interest assessment and extraordinary item	(371.4)	(536.5)
OBRA 1993 retroactive interest assessment — Note 3	<u>(857.0)</u>	<u>—</u>
Loss before extraordinary item	(1,228.4)	(536.5)
Extraordinary item — debt refinancing premium — Note 7	<u>(536.5)</u>	<u>—</u>
Net loss	(1,764.9)	(536.5)
Net capital deficiency — beginning of year	(3,283.1)	(2,746.9)
Capital equipment transfers from the U.S. Government	<u>0.3</u>	<u>0.3</u>
Net capital deficiency — end of year	<u>(\$ 5,047.7)</u>	<u>(\$ 3,283.1)</u>

See accompanying notes to financial statements.

Financial Statements

Statements of Cash Flows

	Years ended September 30,	
	1993	1992
	(dollars in millions)	
Cash flows from operating activities:		
Net loss	(\$ 1,764.9)	(\$ 536.5)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	888.7	784.1
Gain on sales of investments, net	(166.0)	(63.7)
Loss on disposals of property and equipment, net	61.1	53.9
Increase in other assets, principally revenue forgone appropriations receivable	(41.7)	(64.2)
Increase in retirement costs, net of retirement benefits payable	(0.5)	(23.0)
(Decrease) increase in accrued restructuring costs	(891.4)	1,010.0
Increase in workers' compensation costs	456.7	633.7
Increase (decrease) in retroactive assessments payable to the U.S. Government	548.9	(231.6)
Increase in employees' accumulated leave	72.8	129.5
Increase (decrease) in other liabilities	82.0	(38.6)
Changes in current assets and liabilities:		
Increase in receivables, net	(80.5)	(128.3)
Decrease (increase) in supplies, advances and prepayments	3.0	(94.3)
Increase (decrease) in compensation and benefits	408.0	(83.1)
Increase in estimated prepaid postage	28.4	5.0
Increase in payables and accrued expenses	370.8	341.3
Increase in prepaid permit mail and box rentals	129.7	66.7
Increase in outstanding postal money orders	65.5	58.7
Net cash provided by operating activities	170.6	1,819.6
Cash flows from investing activities:		
Purchase of U.S. Government securities	(47,069.5)	(11,928.4)
Proceeds from sale of U.S. Government securities	50,032.5	10,702.8
Purchase of property and equipment	(1,885.0)	(2,474.9)
Proceeds from sale of property and equipment	65.7	21.3
Net cash provided by (used in) investing activities	1,143.7	(3,679.2)
Cash flows from financing activities:		
Issuance of long-term debt	5,000.0	2,006.0
Payments on long-term debt	(5,175.8)	(522.3)
Net cash (used in) provided by financing activities	(175.8)	1,483.7
Net increase (decrease) in cash and cash equivalents	1,138.5	(375.9)
Cash and cash equivalents at beginning of year	335.1	711.0
Cash and cash equivalents at end of year	<u>\$ 1,473.6</u>	<u>\$ 335.1</u>

See accompanying notes to financial statements.

Notes to Financial Statements

September 30, 1993 and 1992

1. Postal Reorganization and Accounting Policies

Postal Reorganization

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

Cash Equivalents

Cash equivalents include securities with maturities at date of purchase of 90 days or less.

Property and Equipment

Property and equipment are recorded at cost, including interest on funds borrowed to finance the construction of major capital additions. Such interest amounted to \$115.3 million in fiscal year 1993 and \$129.9 million in fiscal year 1992. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease period or their useful lives.

Estimated Prepaid Postage

Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

Compensation and Benefits

Amounts payable for compensation and benefits consist of current liabilities for costs related to current employees and postal annuitants. Such liabilities include those arising from current salaries and benefits earned but not yet paid, currently payable workers' compensation costs, unemployment costs, annuitants' health benefits payable, and current portions of retirement liabilities. As a part of management's continuing evaluation of estimates required in the preparation of its financial statements, additional liabilities of approximately \$150 million were recorded in fiscal year 1993 to recognize increases in the estimated cost of personnel-related liabilities incurred prior to 1993.

Retirement Benefits

Amounts payable for retirement benefits reflect the net present value of the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the CSRS Fund) arising from increases in basic pay granted by postal management to its employees and cost-of-living adjustments (COLAs) to postal annuitants based on postal service. Also included in this total is the net present value of an unfunded liability arising from the transfer of Civil Service Retirement System (CSRS) employees into the Federal Employees Retirement System (FERS). These liabilities are payable in equal amounts over a 30-year period, with the exception of COLAs, which are payable over 15 years. Amounts applicable to operations of future years are capitalized as deferred retirement costs and are subsequently amortized over periods of 30 and 15 years. The Postal Service's participation in the retirement plans are accounted for as participation in multiemployer plan arrangements. Accordingly, retiree benefits costs are expensed as incurred.

Post-Retirement Health Benefits

Retiree health benefits costs represent the Postal Service's obligation to pay a portion of the health insurance premiums of retirees (and their survivors) participating in the Federal Employees Health Benefits Program (FEHBP). The Postal Service's participation in the FEHBP is accounted for as participation in a multiemployer plan arrangement. Accordingly, retiree health benefits costs are expensed as incurred.

Workers' Compensation Costs

Workers' compensation costs are self-insured by the Postal Service and administered by the Department of Labor. Such costs, which include both medical and wage continuation costs, are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends, and other factors. In fiscal year 1993, management adopted changes in the net discount rates used in determining the present value of estimated future workers' compensation payments. The net discount rate for compensation claims was increased to 3.0 percent from 2.7 percent; the net discount rate for medical claims was decreased to 0.1 percent from 1.1 percent. The net effect of the adoption of these rates has been accounted for as a change in accounting estimate, and accordingly resulted in a net decrease of \$23.6 million in the fiscal year 1993 compensation and benefits expense. In management's opinion, these net discount rates better reflect the excess of future rates of return on postal investments over expected future inflation rates for each type of claim.

Research and Development Costs

Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to \$57.5 million in fiscal year 1993 and \$167.8 million in fiscal year 1992.

Current Values of Financial Instruments

Current values of investments in non-marketable U.S. Government securities are based on the current values of equivalent marketable U.S. Government securities. Current values of Postal Service debt obligations are based on the estimated cost to retire the debt utilizing current yields on equivalent U.S. Treasury obligations.

Reclassifications

Certain reclassifications have been made to previously reported amounts in order to conform to the current year presentation.

2. Restructuring of Operations

During 1992, the Postal Service began a series of actions to improve its competitive and financial positions by realigning and streamlining management and reducing functions not directly related to the processing and delivery of mail. As a result of this restructuring, a reduction in the size of the career postal work force has been accomplished through a retirement incentive program. The program was made available on August 7, 1992, to substantially all employees currently eligible to retire or meeting certain other criteria. The retirement incentive program expired in fiscal year 1993 for substantially all employees.

Of the restructuring costs of \$1.01 billion recorded in 1992, approximately \$931 million consisted of provisions for the separation of employees through retirement incentives, with the remainder relating primarily to relocation costs and the cancellation of various leases and contracts. As a result of management actions in fiscal year 1993 related to further restructuring efforts, the Postal Service accrued \$129 million in 1993 to recognize additional expenses, primarily for employee retirement incentives and relocation costs.

3. Retroactive Assessments for Employee Benefits

Omnibus Budget Reconciliation Act of 1990

The Omnibus Budget Reconciliation Act (OBRA) of 1990, enacted in October 1990, extended the Postal Service's obligation to pay the employer's portion of annuitant COLAs (Note 5) and health benefits (Note 4). The OBRA of 1990 also assessed the Postal Service for retroactive amounts to be paid in five annual installments, beginning in fiscal year 1991, totalling \$2.14 billion. The assessment represents the employer's portion of annuitant COLAs and health benefits, previously paid by the U.S. Government, that the Postal Service would have paid had the provisions of the OBRA of 1990 been in effect from July 1, 1971, through September 30, 1986.

The retroactive assessments payable under the OBRA 1990, on a present value basis, are as follows (dollars in millions):

Fiscal Year	Health Benefits	COLAs	Total
1991	\$ 56.0	\$ 216.0	\$ 272.0
1992	47.0	266.0	313.0
1993	62.0	316.0	378.0
1994	56.0	416.0	472.0
1995	234.0	471.0	705.0
			<u>2,140.0</u>
Less amount representing imputed interest at 5 percent			<u>329.9</u>
Retroactive assessment for employee benefits expensed in 1991			1,810.1
Less installments paid through 1993			721.2
Less the 1994 installment classified as a current liability in compensation and benefits			<u>417.5</u>
			<u>\$ 671.4</u>

Omnibus Budget Reconciliation Act of 1993

The OBRA of 1993, enacted in August 1993, obligated the Postal Service to pay interest on the retroactive assessments due under the OBRA of 1990. The interest assessment will be paid in three annual installments, beginning in fiscal year 1996, totalling \$1.041 billion. The assessment represents interest, at 5 percent, on the employer's portion of annuitant COLAs and health benefits, previously paid by the U.S. Government, that the Postal Service would have paid had the provisions of the OBRA of 1990 been in effect from July 1, 1971, through September 30, 1986.

The amounts payable under the OBRA 1993, on a present value basis, are as follows (dollars in millions):

Fiscal Year	Health Benefits	COLAs	Total
1996	\$ 116.0	\$ 231.0	\$ 347.0
1997	116.0	231.0	347.0
1998	116.0	231.0	347.0
			<u>1,041.0</u>
Less amount representing imputed interest at 5 percent			<u>184.0</u>
Retroactive interest assessment expensed in 1993			<u>\$ 857.0</u>

4. Post-Retirement Health Benefit Programs

Career employees of the Postal Service are eligible to participate in the FEHBP, which is administered by the Office of Personnel Management (OPM), during their employment and also after retirement. Under the FEHBP, the Postal Service pays a portion of the health insurance premiums of participating employees, retirees, and their survivors.

The OBRA of 1990 requires the Postal Service to pay the employer's share of health insurance premiums incurred through participation in the FEHBP for all employees retiring on or after July 1, 1971, and their survivors, with the exclusion of costs attributable to federal civilian service prior to that

date. Such costs amounted to \$510 million in fiscal year 1993 and \$380 million in fiscal year 1992 and are included in compensation and benefits expense.

As discussed in Note 3, the OBRA of 1990 also required the Postal Service to reimburse the U.S. Government for annuitants' health benefits costs paid prior to the enactment of the law.

5. Retirement Programs

Description of Plans

The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the CSRS, which provides a basic annuity and Medicare coverage. Substantially all employees hired prior to January 1, 1984, are covered by the CSRS. The Postal Service and each participating employee contribute an amount equal to 7 percent of the employee's basic pay to the Civil Service Retirement and Disability Fund (CSRS Fund) and also make Medicare contributions at the statutorily prescribed rate. The Postal Service makes no matching contributions to the Thrift Savings Plan for CSRS employees.

Employees hired between January 1, 1984, and January 1, 1987, were covered by the provisions of the Dual CSRS/Social Security System until January 1, 1987. Certain employees with prior government service continue to be covered by such provisions. The Postal Service contributes an amount equal to 7 percent of each employee's basic pay to the CSRS Fund. The employee contribution rate is 0.8 percent of basic pay. Both the Postal Service and the employee make contributions for Social Security and Medicare at the statutorily prescribed rates. The Postal Service makes no matching contributions to the Thrift Savings Plan for Dual CSRS/Social Security System employees.

Effective January 1, 1987, employees hired since January 1, 1984, except as noted above, are subject to the provisions of the Federal Employees Retirement System (FERS) Act of 1986. In addition, employees hired prior to January 1, 1984, were able to elect participation in FERS during certain periods in fiscal years 1987 and 1988. FERS is a three-tier retirement system consisting of Social Security, a basic annuity plan, and a thrift savings plan.

The Postal Service made contributions to the FERS basic annuity plan in an amount equal to 12.9 percent of each employee's basic pay in 1993 and 1992. The employee contribution rate was 0.8 percent of basic pay in both years. Both the Postal Service and each employee contribute to Social Security and Medicare at the statutorily prescribed rates. In addition, the Postal Service is required to contribute a minimum of 1 percent per annum of the basic pay of FERS employees to the thrift savings plan. Contributions by FERS employees to the thrift savings plan are voluntary and are fully matched by the Postal Service up to 3 percent of basic pay and at a 50 percent rate between 3 percent and 5 percent of basic pay.

The number of employees enrolled in each of the retirement plans at the end of fiscal years 1993 and 1992 are as follows:

	1993	1992
CSRS	358,254	405,302
Dual CSRS/Social Security	14,267	14,232
FERS	317,915	304,192

Deferred Retirement Costs

Deferred retirement costs consist of the following unfunded liabilities (dollars in millions):

	1993	1992
CSRS basic pay increases	\$ 22,809.8	\$ 22,872.9
CSRS annuitants' COLAs	3,917.3	3,560.3
FERS	338.9	346.9
	<u>\$ 27,066.0</u>	<u>\$ 26,780.1</u>

Unfunded Liability — CSRS

Under the CSRS, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the CSRS Fund attributable to Postal Service employee-management agreements that authorize increases in employees' basic pay on which benefits payable from the CSRS Fund are computed. The estimated increase in the unfunded liability as determined by OPM is paid by the Postal Service in 30 equal annual installments with interest computed at 5 percent per annum. The first payment thereof is due at the end of the fiscal year in which an increase in the basic pay becomes effective.

The increases in the unfunded liability for retirement benefits pursuant to employee-management agreements under the CSRS in fiscal years 1993 and 1992 were \$731.5 million and \$1.901 billion, respectively.

Unfunded Liability — Annuitants' COLAs

The OBRA of 1990 made the Postal Service liable, on a prospective basis, for the cost of COLAs granted to postal annuitants (and their survivors) retiring on or after July 1, 1971, with the exclusion of costs attributable to federal civilian service prior to that date. The annual liability created by this law is determined by OPM and funded in equal annual installments over 15 years, with interest at 5 percent per annum. The increase in the unfunded liability for annuitants' COLAs was \$729.7 million in fiscal year 1993 and \$831.7 million in fiscal year 1992.

Unfunded Liability — FERS

The unfunded liability of the FERS basic annuity plan relates to costs associated with employees who transferred from the CSRS. This liability is determined by OPM, and is funded by the Postal Service through supplemental contributions over a 30-year period with interest computed at 7 percent per annum. In fiscal year 1989, OPM determined the initial supplemental liability under FERS attributable to Postal Service employees at September 30, 1988, to be \$400 million. An annual payment of \$32.2 million is due on September 30 of each year.

Future Minimum Payments

The estimated future minimum payments required to fund amounts payable for CSRS and FERS retirement benefits on September 30, 1993, are as follows (dollars in millions):

Fiscal Year	Amount
1994	\$ 2,510.8
1995	2,490.3
1996	2,464.2
1997	2,436.1
1998	2,405.5
Thereafter	<u>30,645.2</u>
	42,952.1
Less the portion classified as a current liability	1,150.7
Less amount representing interest	<u>15,886.1</u>
	<u>\$ 25,915.3</u>

Expense Components

Components of aggregate retirement expenses for fiscal years 1993 and 1992 are shown below (dollars in millions).

	1993	1992
CSRS — regular	\$ 828.1	\$ 941.9
FERS — regular	1,093.0	1,060.5
FERS — Thrift Savings Plan	303.5	275.8
Dual CSRS/Social Security	31.1	31.2
Old Age Survivors and Disability Insurance	853.9	742.2
Amortization of unfunded liabilities:		
CSRS	794.6	804.5
Annuitant COLAs	372.7	337.5
FERS	8.0	7.4
Interest on unfunded liabilities	<u>1,345.9</u>	<u>1,269.0</u>
	<u>\$ 5,630.8</u>	<u>\$ 5,470.0</u>

6. Revenue Forgone

Operating revenue includes reimbursements and accruals for revenue forgone. Revenue forgone results from charging lower rates for those mail categories which Congress has determined should be subsidized through tax dollars. Revenue forgone appropriations included in operating revenue in fiscal years 1993 and 1992 amounted to \$164 million and \$545 million, respectively.

During fiscal years 1992 and 1991, Congress paid to the Postal Service a lower amount for revenue forgone than was required to fully fund services rendered. As of September 30, 1992, the Postal Service had recorded receivables for earned but unpaid revenue forgone appropriations of \$156 million, as the Postal Service had been instructed by law to request these shortfalls through the budget reconciliation process in future years. In fiscal year 1993, the Postal Service requested \$482 million and received an appropriation of \$122 million, resulting in a 1993 funding shortfall for revenue forgone of \$360 million.

On October 28, 1993, the Revenue Forgone Reform Act (Act) was enacted. The Act authorizes Congress to appropriate \$29 million annually through 2035, which will reimburse the Postal Service for earned but unpaid revenue forgone appropriations for 1991, 1992, and 1993, as well as for the cost of phasing out certain aspects of the revenue forgone program in fiscal years 1994 through 1998. In addition, should Congress fail to appropriate an amount authorized, the Act authorizes the Postal Service to adjust rates on subsidized mail categories, so that the resulting increase in revenues will equal the amount Congress failed to appropriate.

The transitional appropriations authorized under the Act total \$1.218 billion. The present value of these future appropriations, calculated at 7 percent, is approximately \$390 million. Management has determined that the present value of the portion of the future appropriations related to unpaid amounts in fiscal years 1991 through 1993 is approximately \$198 million. This amount is recorded as a receivable at September 30, 1993. The net effect of the passage of the Act and subsequent revaluation of the cumulative earned but unpaid revenue forgone for 1991, 1992, and 1993, is to increase the receivable in fiscal year 1993 by \$42 million.

7. Long-Term Debt and Interest Costs

The Postal Reorganization Act, as amended by Public Law 101-227, authorizes the Postal Service to issue and sell obligations not to exceed \$15 billion outstanding at any one time. Net annual increases in outstanding obligations are limited to \$2 billion for the purpose of capital improvements and \$1 billion for operating expenses.

In fiscal year 1993, the Postal Service retired, prior to maturity, \$4,463.5 million of notes payable to the Federal Financing Bank (FFB). These notes had a weighted average interest rate of 8.76 percent. The Postal Service incurred a debt refinancing premium of \$536.5 million, which was recognized as an extraordinary item in fiscal year 1993. The funds for the retirement of the debt were obtained through the issuance of \$5.0 billion of new debt.

Annual maturities of outstanding debt for each of the next five years are (in millions):

Fiscal Year	Amount
1994	\$ 1,062.0
1995	1,260.4
1996	1,863.0
1997	660.0
1998	2,182.7

Cash paid for interest was \$750.4 million in 1993 and \$780.6 million in 1992.

Long-term debt consists of the following (dollars in millions):

Interest		September 30,	
Rate (%)	Terms	1993	1992
Notes payable to the Federal Financing Bank (FFB):			
8.075	Payable \$32 million each year to May 31, 2000	\$ 224.0	\$ 256.0
7.800	Payable \$15 million each year to May 31, 2001	120.0	135.0
10.475	Payable \$38.8 million each year to May 31, 2010 (prepaid in fiscal year 1993)	—	698.4
7.591	Payable \$50 million each year to June 1, 1997, and \$22.5 million due on June 1, 1998 (prepaid \$677.5 million in fiscal year 1993; original maturity was May 31, 2011)	222.5	950.0
8.474	Payable \$30 million each year to June 1, 1998 (prepaid \$420 million in fiscal year 1993; original maturity was May 2012)	150.0	600.0
8.908	Payable \$35.4 million each year to June 1, 1998 (prepaid \$495.6 million in fiscal year 1993; original maturity was May 31, 2012)	177.0	708.0
9.074	Payable \$60 million each year to June 1, 1998 (prepaid \$840 million in fiscal year 1993; original maturity was May 31, 2012)	300.0	1,200.0
9.081	Payable \$36 million each year to May 31, 1996; \$12 million due June 2, 1997	120.0	156.0
8.768*	Payable \$24 million on May 31, 1997, with payments of \$36 million each year thereafter through May 31, 2001	168.0	168.0
8.755*	Payable \$36 million May 31, 2002 through May 31, 2013 (prepaid in fiscal year 1993)	—	432.0
8.488	Payable on October 2, 1995	800.0	800.0
7.786	Payable on September 30, 1998	450.0	450.0
7.529*	Payable on September 30, 1993, 1998, and 2021 (prepaid \$900 million in fiscal year 1993)	—	1,350.0

* Weighted average interest rate.

Interest Rate (%)	Terms	September 30, 1993	1992
Notes payable to the Federal Financing Bank (FFB):			
6.356*	Payable \$800 million on September 30, 1994, October 2, 1995, and \$400 million on September 30, 1997	\$ 2,000.0	\$ 2,000.0
4.676	Payable on October 31, 1994	1,000.0	—
6.307	Payable on October 31, 1997; callable November 30, 1995	1,500.0	—
7.367	Payable on August 15, 2002; callable November 30, 1997	1,500.0	—
7.615	Payable on November 30, 2007; callable November 30, 1997	1,000.0	—

Mortgage Notes Payable:

4.75 to	Maturing from fiscal years 1994 through 2004,		
9.75	secured by land, buildings, and equipment with a carrying amount of \$68.1 million (aggregate annual installments approximate \$3.8 million)	16.8	20.7
		9,748.3	9,924.1
Less current portion		1,062.0	750.8
		<u>\$ 8,686.3</u>	<u>\$ 9,173.3</u>

* Weighted average interest rate.

8. Commitments

At September 30, 1993, the estimated cost to complete approved Postal Service capital projects in progress was approximately \$1.55 billion.

Total rental expense for the years ended September 30, 1993 and 1992 is summarized as follows (dollars in millions):

	1993	1992
Noncancellable real estate leases including related taxes	\$ 537.5	\$ 531.9
Facilities leased from General Services Administration subject to 120-day notice of cancellation	39.4	37.9
Equipment and other short-term rentals	86.5	112.5
	<u>\$ 663.4</u>	<u>\$ 682.3</u>

At September 30, 1993, the future minimum rentals for all noncancellable leases are as follows (dollars in millions):

Year	Total
1994	\$ 444.7
1995	396.0
1996	323.9
1997	251.5
1998	186.9
Thereafter	607.0
	<u>\$ 2,210.0</u>

Most of these leases contain renewal options for periods ranging from 3 to 20 years. Certain noncancellable real estate leases have options to purchase the facilities at prices specified in the leases.

9. Contingencies

Several equal employment opportunity, employee compensation, environmental, and postal rate class action lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages, and suits and claims arising out of postal contracts.

In July 1993, the Merit Systems Protection Board (MSPB) ruled that the restructuring initiated in fiscal year 1992 (See note 2) constituted a reduction-in-force (RIF) as defined by the Code of Federal Regulations. As a result, the MSPB found that preference eligible employees who were placed in lower graded positions had been denied their procedural and substantive rights. Currently, there are several hundred appeals before the MSPB.

Management and General Counsel believe that the restructuring did not constitute a RIF since affected employees received saved grade and saved pay. Thus, affected employees have not been demoted. The Office of Personnel Management (OPM) has intervened on behalf of the Postal Service before the MSPB. The appeal is currently pending. Management and General Counsel believe that it is probable that the outcome of OPM's appeal will be favorable to the Postal Service.

As a part of management's continuing evaluation of estimates required in the preparation of its financial statements, additional liabilities of approximately \$80 million were recorded in fiscal year 1993 to recognize increases in the estimated cost of litigation and claims asserted prior to 1993.

In the opinion of management and General Counsel, adequate provision has been made for amounts that may become due under the suits, claims, and proceedings discussed in the preceding paragraphs.

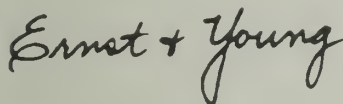
Report of Independent Auditors

Board of Governors United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 1993 and 1992, and the related statements of operations and changes in net capital deficiency and cash flows for the years then ended. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1993 and 1992, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

Washington, DC
November 12, 1993

Financial and Operating Highlights

	Year Ended Sept. 30, 1993	Year Ended Sept. 30, 1992	Year Ended Sept. 30, 1991	Year Ended Sept. 30, 1990	Year Ended Sept. 30, 1989
Pieces of mail (millions)	171,220	166,443	165,851	166,301	161,603
Percent change	2.9	0.4	-0.3	2.9	0.4
<i>(dollars in millions)</i>					
Revenue from operations	\$47,418	\$46,151	\$43,323	\$39,201	\$37,979
Percent change	2.7	6.5	10.5	3.2	8.4
Public service appropriation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue forgone appropriation*	\$ 164	\$ 545	\$ 562	\$ 453	\$ 436
Percent change	-69.9	-3.0	24.1	3.9	-15.6
Total operating expenses****	\$46,321	\$45,653	\$43,291	\$40,490	\$38,371
Percent change****	1.5	5.5	6.9	5.5	6.2
Interest expense on unfunded retirement liabilities****	(\$ 1,346)	(\$ 1,269)	—	—	—
Other interest (expense) income, net	(\$ 286)	(\$ 310)	(\$ 253)	(\$ 38)	\$ 17
(Loss) income, before retroactive assessments and extraordinary item	(\$ 371)	(\$ 536)	\$ 341	(\$ 874)	\$ 61
Retroactive assessment					
OBRA 1990	—	—	(\$ 1,810)	—	—
Retroactive interest assessment					
OBRA 1993	(\$ 857)	—	—	—	—
Extraordinary item — debt refinancing premium	(\$ 537)	—	—	—	—
Net (loss) income	(\$ 1,765)	(\$ 536)	(\$ 1,469)	(\$ 874)	\$ 61
Fixed assets (net of depreciation)**	\$15,535	\$14,696	\$13,109	\$11,523	\$10,336
Percent change	5.7	12.1	13.8	11.5	8.4
Net capital deficiency	(\$ 5,048)	(\$ 3,283)	(\$ 2,747)	(\$ 1,278)	(\$ 402)
<i>(in units indicated)</i>					
U.S. resident population July 1 estimate (in millions)***	257.9	253.6	250.9	248.2	245.7
Percent change	1.7	1.1	1.1	1.0	1.0
Pieces of mail per capita	664	656	661	670	658
Percent change	1.2	-0.8	-1.3	1.8	-0.5
Operating revenue per capita	\$ 183.86	\$ 181.98	\$ 172.67	\$ 157.94	\$ 154.57
Percent change	1.0	5.4	9.3	2.2	7.4
Operating expense per piece of mail****	27.05¢	27.43¢	26.10¢	24.35¢	23.74¢
Percent change****	-1.4	5.1	7.2	2.6	5.8
Operating revenue per piece of mail	27.69¢	27.73¢	26.12¢	23.57¢	23.50¢
Percent change	-0.1	6.2	10.8	0.3	7.9
Net (loss) income per piece of mail	(1.03¢)	(0.32¢)	(0.89¢)	(0.53¢)	0.04¢
Career employees	691,723	725,290	748,961	760,668	777,715
Percent change	-4.6	-3.2	-1.5	-2.2	-0.2

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act, as amended by the Revenue Forgone Reform Act of 1993.

** Fiscal Year 1989 - 1991 data recast to include construction in progress.

*** 1989 - 1990 data recast to reflect 1990 census information.

**** Beginning in 1992, interest on unfunded liabilities is presented separately. Such amounts for the prior years are included in the total operating expenses. Prior years are not comparable.

Financial History Summary

	1993	1992	1991	1990	1989
Statement of Operations	<i>(dollars in thousands)</i>				
Operating revenue	\$47,418,000	\$46,151,120	\$43,322,604	\$ 39,201,405	\$ 37,978,675
Public service appropriation	0	0	0	0	0
Revenue forgone appropriation	164,000	544,680	561,868	453,425	436,417
Total operating revenue	47,582,000	46,695,800	43,884,472	39,654,830	38,415,092
Compensation and benefits	38,447,700	37,122,030	36,076,230	34,214,093	32,368,364
Restructuring costs	129,000	1,010,000	—	—	—
Other expenses	7,744,900	7,520,848	7,214,553	6,275,791	6,002,394
Total operating expenses	46,321,600	45,652,878	43,290,783	40,489,884	38,370,758
Income (loss) from operations	1,260,400	1,042,922	593,689	(835,054)	44,334
Interest expense on unfunded retirement liabilities**	(1,345,900)	(1,268,991)	—	—	—
Imputed interest on retroactive assessment for employee benefits	(69,900)	(81,432)	(90,507)	—	—
Interest (expense) income on borrowings, net	(216,000)	(228,961)	(161,654)	(38,524)	16,385
(Loss) income before retroactive assessments and extraordinary item	(371,400)	(536,462)	341,528	(873,578)	60,719
Retroactive assessments for employee benefits					
OBRA 1990	—	—	(1,810,142)	—	—
OBRA 1993	(857,000)	—	—	—	—
(Loss) income before extraordinary item	(1,228,400)	(536,462)	(1,468,614)	(873,578)	60,719
Extraordinary item — debt refinancing premium	(536,500)	—	—	—	—
Net (loss) income	(\$ 1,764,900)	(\$ 536,462)	(\$ 1,468,614)	(\$ 873,578)	\$ 60,719
Balance Sheets					
Assets					
Current assets	\$ 4,478,100	\$ 6,027,379	\$ 4,863,268	\$ 4,528,341	\$ 5,448,439
Property, plant, and equipment, deferred retirement costs, and other assets	42,803,000	41,637,331	38,402,182	32,976,222	31,323,509
Total assets	\$47,281,100	\$47,664,710	\$43,265,450	\$ 37,504,563	\$ 36,771,948
Liabilities					
Current liabilities*	\$10,139,700	\$ 9,484,223	\$ 7,400,104	\$ 6,289,805	\$ 5,897,866
Other liabilities*	33,502,800	32,290,309	30,473,907	25,824,894	25,102,649
Long-term debt	8,686,300	9,173,294	8,138,375	6,667,530	6,173,062
Net capital deficiency	(5,047,700)	(3,283,116)	(2,746,936)	(1,277,666)	(401,629)
Total liabilities and equity	\$47,281,100	\$47,664,710	\$43,265,450	\$ 37,504,563	\$ 36,771,948
Analyses of Changes in Net Capital Deficiency					
Beginning balance	(\$ 3,283,100)	(\$ 2,746,936)	(\$ 1,277,666)	(\$ 401,629)	(\$ 460,434)
Net (loss) income	(1,764,900)	(536,462)	(1,468,614)	(873,578)	60,719
Capital contributions	300	282	(656)	(2,459)	(1,914)
Ending balance	(\$ 5,047,700)	(\$ 3,283,116)	(\$ 2,746,936)	(\$ 1,277,666)	(\$ 401,629)

* Certain reclassifications have been made to 1992 amounts to conform to 1993 presentation. Prior years have not been restated due to immateriality.

** Beginning in 1992, interest on unfunded retirement liabilities is presented separately. Such amounts for the prior years are included in compensation and benefits. Prior years are not comparable.

Impact of Revenue Forgone Appropriation* on Revenues, Fiscal Year 1993

Classes of Service	Total Income of Service (dollars in millions)	Income from Revenues	Income from Appropriation	Appropriation as a Percentage of Income
First-Class Mail	\$28,827.9	\$28,827.9	none	none
Priority Mail	\$ 2,299.7	\$ 2,299.7	none	none
Express Mail	\$ 627.1	\$ 627.1	none	none
Mailgram	\$ 7.1	\$ 7.1	none	none
Second-Class Mail				
Within county	\$ 88.3	\$ 85.0	\$ 3.3	3.74
Outside county				
Nonprofit and classroom publications	\$ 290.5	\$ 281.4	\$ 9.1	3.13
Regular-rate publications	\$ 1,359.2	\$ 1,359.1	\$ 0.1	—
Fees	\$ 14.9	\$ 14.9	none	none
Total Second-Class Mail	\$ 1,752.9	\$ 1,740.4	\$ 12.5	0.71
Third-Class Mail				
Single-piece rate	\$ 197.8	\$ 197.8	none	none
Regular bulk rate	\$ 8,347.8	\$ 8,347.8	none	none
Nonprofit bulk rate	\$ 1,260.9	\$ 1,204.8	\$ 56.1	4.45
Fees	\$ 66.3	\$ 66.3	none	none
Total Third-Class Mail	\$ 9,872.8	\$ 9,816.7	\$ 56.1	0.57
Fourth-Class Mail				
Parcels (zone rate)	\$ 575.6	\$ 575.6	none	none
Bound printed matter	\$ 306.2	\$ 306.2	none	none
Special rate matter	\$ 257.4	\$ 257.4	none	none
Library materials	\$ 43.2	\$ 42.8	\$ 0.4	0.93
Fees	\$ 1.3	\$ 1.3	none	none
Total Fourth-Class Mail	\$ 1,183.8	\$ 1,183.3	\$ 0.4	0.03
Free mail for the blind and handicapped	\$ 51.7	\$ 0.0	\$ 51.7	100.00
Overseas absentee ballots	\$ 1.2	\$ 0.0	\$ 1.2	100.00
International Mail	\$ 1,406.5	\$ 1,406.5	none	none
Totals****	\$46,030.6	\$45,908.7	\$121.9**	0.26
Net impact of Revenue Forgone Reform Act of 1993			42.0***	
Revenue forgone recognized in 1993			\$163.9	

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act, as amended by the Revenue Forgone Reform Act of 1993.

** The total appropriation for fiscal year 1993 was \$121.9 million. Free mail for the blind and handicapped was fully funded and the remainder of the funds was prorated among those mailing categories previously funded.

*** In 1993, Congress enacted legislation which altered certain aspects of the revenue forgone program and will reimburse the Postal Service for past amounts due — as well as prospective amounts to be earned through 1998 — over the next 42 years. In 1993, the Postal Service recorded a receivable of \$42 million to reflect the net impact of this legislation.

**** Totals may not add due to rounding.

Source of Income

(dollars in millions)

Mail revenue	\$ 45,909
Special services	1,509
Government appropriations for free and reduced rate mail	164
Total operating revenue	47,582
Total operating expenses	46,322
Income from operations	1,260
Interest income	404
Interest expense — borrowing	(620)
Interest expense — unfunded retirement liability	(1,346)
OBRA 1993 assessment	(857)
Debt refinancing premium — extraordinary item	(536)
Imputed Interest	(70)
Net loss	(\$ 1,765)

Analysis of Expenses, Fiscal Year 1993

(in percent)

Personnel compensation	59.73
Personnel benefits	17.55
Interest on unfunded liabilities	2.71
Vehicle/building maintenance	0.80
Transportation	6.28
Supplies and services	2.70
Rent, communications	1.36
Utilities	0.74
Interest	1.39
Depreciation and write-offs	1.94
OBRA 1993	1.72
Restructuring costs	0.26
Debt refinancing premium — extraordinary item	1.08
Other	1.74

Analysis of Mail Volume, Fiscal Year 1993

	(pieces in billions)		
	1993	1992	% chg*
First-Class	92.17	90.78	1.5
Second-Class	10.31	10.32	(0.1)
Third-Class	65.77	62.55	5.2
Fourth-Class	0.74	0.76	(2.7)
U.S. Postal Service	0.54	0.55	(1.4)
International	0.91	0.79	14.9
All Other	0.78	0.69	13.0
Total Mail	171.22	166.44	2.9

* Percent change reflects unrounded volume data.

Percent of Total Volume by Class, Fiscal Year 1993

	(in percent)
First-Class	53.83
Second-Class	6.02
Third-Class	38.41
Fourth-Class	0.43
U.S. Postal Service	0.32
International	0.53
All Other	0.46

Operating Statistics

	1993	1992	1991	1990	1989
<i>(in thousands of units indicated)</i>					
First-Class					
Pieces, number	92,169,448	90,781,037	90,284,596	89,269,649	85,855,458
Weight, pounds	3,672,186	3,496,383	3,398,026	3,339,790	3,216,108
Revenue	\$28,827,885	\$28,296,035	\$26,648,534	\$24,023,323	\$23,234,417
Priority Mail					
Pieces, number	664,373	584,356	530,407	517,850	470,831
Weight, pounds	1,174,613	1,108,590	1,017,227	1,007,067	939,318
Revenue	\$ 2,299,663	\$ 2,070,830	\$ 1,764,601	\$ 1,554,656	\$ 1,415,820
Express Mail					
Pieces, number	52,380	53,176	57,968	58,582	53,308
Weight, pounds	60,942	63,208	107,158	112,451	98,810
Revenue	\$ 627,073	\$ 639,019	\$ 667,988	\$ 630,707	\$ 571,992
Mailgram					
Pieces, number	7,179	7,453	11,942	14,001	16,871
Revenue	\$ 7,057	\$ 7,675	\$ 7,452	\$ 8,477	\$ 10,193
Second-Class					
Pieces, number	10,306,091	10,318,584	10,399,202	10,680,469	10,523,374
Weight, pounds	4,040,511	3,830,429	4,014,545	4,233,113	4,169,919
Revenue	\$ 1,740,431	\$ 1,751,180	\$ 1,667,801	\$ 1,509,346	\$ 1,519,267
Third-Class					
Pieces, number	65,773,180	62,547,188	62,429,896	63,725,110	62,779,116
Weight, pounds	8,006,537	7,122,868	7,386,612	7,648,088	7,478,767
Revenue	\$ 9,816,731	\$ 9,490,179	\$ 8,956,031	\$ 8,082,377	\$ 7,923,511

Operating Statistics

	1993	1992	1991	1990	1989
<i>(in thousands of units indicated)</i>					
Fourth-Class					
Pieces, number	743,847	764,504	695,393	662,977	625,932
Weight, pounds	2,284,346	2,396,768	2,074,460	2,109,342	2,196,129
Revenue	\$ 1,183,372	\$ 1,186,360	\$ 1,000,945	\$ 919,540	\$ 908,432
International Surface					
Pieces, number	124,417	132,934	146,464	165,901	165,799
Weight, pounds	125,076	120,229	133,952	146,216	139,443
Revenue	\$ 210,895	\$ 206,602	\$ 221,439	\$ 222,123	\$ 216,848
International Air					
Pieces, number	782,604	656,319	646,338	632,364	558,056
Weight, pounds	119,857	107,733	102,077	102,397	88,465
Revenue	\$ 1,195,620	\$ 1,069,229	\$ 984,573	\$ 941,078	\$ 864,308
U.S. Postal Service					
Pieces, number	543,674	551,402	612,545	538,427	527,791
Weight, pounds	80,935	91,648	79,624	97,388	66,323
Free for the Blind					
Pieces, number	52,799	46,439	35,859	35,440	26,728
Weight, pounds	33,261	30,701	26,299	30,235	18,463
Totals*					
Pieces, number	171,219,994	166,443,391	165,850,610	166,300,770	161,603,264
Weight, pounds	19,598,264	18,368,556	18,339,980	18,826,087	18,411,745
Revenue	\$45,908,726	\$44,717,110	\$41,919,364	\$37,891,627	\$36,664,788

* Penalty and franked mail are included in their classes of mail.

Totals may not add due to rounding.

Operating Statistics

	1993	1992	1991	1990	1989
<i>(in thousands of units indicated)</i>					
Registry					
Number of articles (paid and free)	23,852	25,285	41,190	45,312	48,939
Revenue	\$ 130,358	\$ 130,977	\$ 147,250	\$ 173,725	\$ 181,270
Certified					
Number of pieces (paid and free)	237,079	219,388	209,033	191,032	176,540
Revenue	\$ 425,503	\$ 392,807	\$ 362,370	\$ 309,652	\$ 284,394
Insurance					
Number of articles (paid and free)	30,773	34,113	35,645	33,102	34,878
Revenue	\$ 52,020	\$ 56,151	\$ 54,234	\$ 47,250	\$ 48,869
Collection-On-Delivery					
Number of articles	6,802	8,256	8,690	9,926	10,049
Revenue	\$ 20,268	\$ 24,845	\$ 25,577	\$ 26,093	\$ 26,993
Special Delivery					
Number of articles (paid and free)	331	820	2,101	1,161	2,212
Revenue	\$ 2,409	\$ 5,530	\$ 14,441	\$ 6,345	\$ 12,042
Money Orders					
Number issued	186,404	177,584	162,453	155,141	150,407
Revenue	\$ 165,893	\$ 154,384	\$ 148,146	\$ 154,588	\$ 147,771
Other					
Box rent revenue	\$ 480,969	\$ 457,200	\$ 412,625	\$ 393,807	\$ 362,318
Stamped envelope revenue	\$ 18,154	\$ 18,147	\$ 12,955	\$ 25,181	\$ 15,883
Other revenue, net	\$ 213,850	\$ 193,969	\$ 225,642	\$ 173,137	\$ 234,347
Totals					
Special services revenue	\$ 1,509,424	\$ 1,434,010	\$ 1,403,240	\$ 1,309,778	\$ 1,313,887
Mail revenue	\$45,908,726	\$44,717,110	\$41,919,364	\$37,891,627	\$36,664,788
Operating revenue before appropriations	<u>\$47,418,150</u>	<u>\$46,151,120</u>	<u>\$43,322,604</u>	<u>\$39,201,405</u>	<u>\$37,978,675</u>

Operating Statistics

	1993	1992	1991	1990	1989
Employees					
Headquarters — L'Enfant Plaza	1,762	2,434	2,408	2,291	2,278
Headquarters — Field Support Units	4,157	5,663	5,715	5,691	5,882
Inspection Service (field)	4,181	4,324	4,316	4,259	4,276
Discontinued Operations	189	—	—	—	—
Field Career Employees					
Area Offices	1,062	—	—	—	—
Regional Offices	—	586	559	542	431
Postmasters/Installation Heads	25,304	26,496	27,100	26,995	27,242
Supervisors/Managers	31,936	43,185	43,801	43,458	44,793
Prof. Admin. Tech. Personnel	10,306	10,440	9,888	9,793	10,528
Clerks	257,147	268,049	280,918	290,380	300,908
Nurses	224	286	296	286	318
Mail Handlers	51,078	49,520	50,770	51,123	52,295
City Delivery Carriers	211,893	223,088	232,182	236,081	240,159
Motor Vehicle Operators	7,199	7,086	7,265	7,308	7,357
Rural Delivery Carriers & Substitutes					
on Unassigned Routes	43,694	43,283	42,876	42,252	40,802
Special Delivery Messengers	1,571	1,742	1,870	2,012	2,142
Bldg. & Equip. Maintenance Personnel	35,444	34,367	34,166	33,323	33,348
Vehicle Maintenance Personnel	4,576	4,741	4,831	4,874	4,956
Total Career Employees	<u>691,723</u>	<u>725,290</u>	<u>748,961</u>	<u>760,668</u>	<u>777,715</u>
Non-Career Employees					
Casuals	25,889	27,204	25,666	26,829	21,209
Non-Bargaining Temporary	1,452	603	548	414	371
Rural Subs/RCA/RCR/AUX	44,456	43,830	44,020	43,373	42,355
PM Relief/Leave Replacements	12,087	12,415	12,198	11,979	11,902
Transitional Employees	42,272	9,732	—	—	—
Offices, Stations, and Branches					
Number of post offices	28,728	28,837	28,912	28,959	29,083
Number of stations and branches:					
Classified stations and branches	4,692	4,685	5,029	5,008	4,958
Contract stations and branches	4,367	4,443	4,427	4,397	4,297
Community post offices	1,605	1,630	1,617	1,703	1,693
Subtotal	<u>10,664</u>	<u>10,758</u>	<u>11,073</u>	<u>11,108</u>	<u>10,948</u>
Total offices, stations, and branches	<u>39,392</u>	<u>39,595</u>	<u>39,985</u>	<u>40,067</u>	<u>40,031</u>



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Generations

The America we serve; the America we are.



The 1994 Annual Report
of the Postmaster General

Generations

The America we serve; the America we are.

The rich heritage of the U.S. Postal Service is best portrayed through its people. Many come from generations of postal families — who grew up in postal homes and followed in their parents' footsteps as part of the larger postal family.

Frank and Anna Thomann of Hills, Iowa, started their family's tradition three-quarters of a century ago. And now, seven decades and four generations later, Thomans continue in the Postal Service. (Over the years, the family dropped the last 'n' in Thomann.)

Deborah Thoman Engaldo, a customer service supervisor at the Lakeside, California, Post Office, is one. On the cover of this 1994 Annual Report, she is joined by her husband Michael; father, Frank Thoman; and her children Tony and Melissa. On the following pages, Deborah's words trace her family's history over the years.

The Thoman Family, representative of hundreds of multi-generational postal families, is the product of a nationwide search through our all-employee magazine. Other families are portrayed throughout the Annual Report.

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To the Governors and Congress

For more than two centuries, the dedicated men and women of the United States Postal Service have pursued their historic mission to serve the communications needs of America's citizens and its businesses.

This annual report reflects that heritage through the eyes of real postal people from families who have been part of the larger postal family who served over many generations. From pen to typewriter to computer to electronic letters, the means of writing letters has changed. Yet, across the generations, the people who deliver the letters are the same dedicated individuals as their predecessors over two centuries.

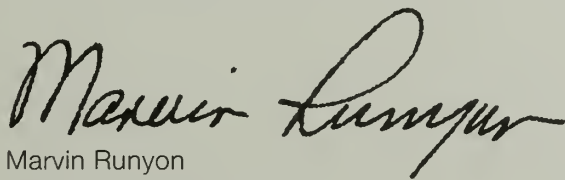
The mission of the Postal Service also remains unchanged. We are dedicated to "universal service at a uniform price" — the words that chartered this great organization 220 years ago. We shall never waver from this historic mission.

As we move forward into 1995, we look back on a successful 1994 — one where we began to make good on our promise to reinvent the Postal Service and keep it focused on meeting the needs of our customers.

We completed a fourth year without raising rates, the first time that has been accomplished in a quarter century. We beat a tough budget by \$430 million. Although we saw some serious service problems develop in some major cities, we dealt with them affirmatively.

According to our External First-Class Measurement System, overnight service performance was 81.9 percent for fiscal year 1994. And customer satisfaction remains high — 85 percent of the nation's households rated their overall satisfaction with the Postal Service as "excellent," "very good," or "good" at the end of the year.

There is much work to do in 1995 to keep the Postal Service moving forward, as we rededicate ourselves to continuing our evolution into a premier provider of 21st-century postal communications.



Marvin Runyon
Postmaster General
and Chief Executive Officer
Washington, DC
January 10, 1995



The Library of the

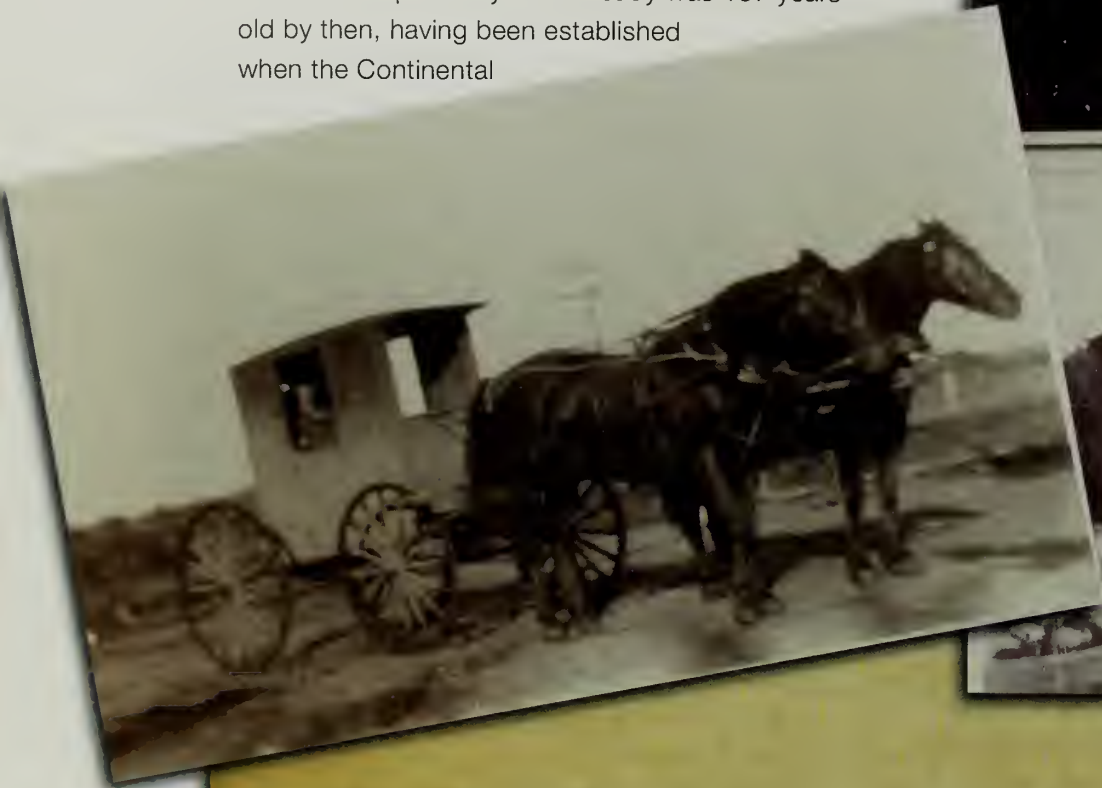
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University of Illinois
at Urbana-Champaign

We are proud of our past

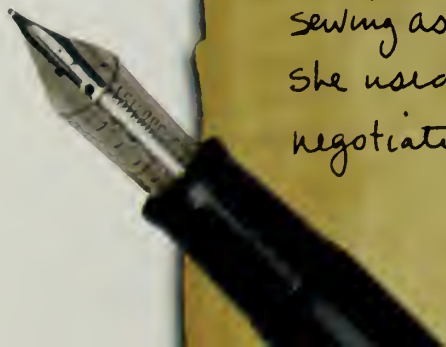
As Deborah Thoman Engaldo writes in the letters on these pages, her family's postal tradition began in 1912, when her great-grandmother, Anna C. Thomann, began her career as a rural carrier relief. Mrs. Thomann's service to those living in rural communities around Hills, Iowa, represents the heart of the Postal Service's charter.

The nation's postal system already was 137 years old by then, having been established when the Continental



1st Generation

Our family's postal tradition began in 1912, when my great grandmother Anna C. Thomann started her 25-year career as a rural carrier relief at the Hills Iowa Post Office. And that was at the age of 40. In 1919, she got her own route, with her husband Frank serving as her relief carrier. Unlike most carriers at the time, she used a team of two horses for the mail wagon to negotiate the steep, unimproved roads in the area...



Congress named Benjamin Franklin to serve as our nation's first Postmaster General. From its beginnings, it was intended to bind the nation together — to provide every American and every business with the opportunity to communicate and to conduct business with each other.

In the more than two centuries that have followed, the United States and the Postal Service have grown and changed together. Today's postal system extends over a nationwide network of almost 40,000 offices, and its people deliver to 125 million addresses six days a week.

By the end of fiscal year 1994 (September 30), the Postal Service generated \$49.4 billion in operating revenue and had a work force of 728,944 career employees — among them the fourth generation of Anna Thomann's family, Deborah Thoman Engaldo, a customer service supervisor in Lakeside, California, and her brother, Bill Thoman, a mail handler in Cedar Rapids, Iowa.

And, just as in the days of Deborah's grandparents and father — when the competition came mainly from magazines and newspapers and the telephone and television — mail has remained a competitive medium even in the age of fax, computers and alternate delivery firms. The value of mail remains. The products and services provided by the modern-day Thomans and other postal workers like them are supported by one of America's most recognized, respected, and relevant brands — the United States Postal Service.



2nd Generation

My grandfather, Giles M. Thomann, continued the tradition with his own 23-year career working for the old Post Office Department. The son of Frank and Anna Thomann, he started as a postal clerk at the Iowa City Post Office in 1922 and later became a finance clerk. His truly was a postal family:





Binding our nation together

Although the scope and reach of the Postal Service has changed as our nation has grown, it continues today to do what it has done since Ben Franklin's, Anna Thomann's, Giles Thomann's, and Frank Thoman's first days on the job — deliver the mail and help to fuel the nation's economy by delivering millions of messages and billions of dollars in financial transactions to the nation's eight million businesses and its 260 million citizens.

When Frank Thoman delivered mail in 1950, the Post Office Department was



3rd Generation

This is my father, Frank Thoman, when he carried mail in Iowa City. He started as a substitute letter carrier and clerk in 1948. In those days, if there wasn't enough work in one department, the post office could put you to work in another. My father always preferred carrying, because he liked being outdoors and meeting people. He became a regular letter carrier in 1956 and spent the last 31 years of his 42-year career delivering mail to customers on his Manville Heights route before he retired in 1990.



processing and delivering some 45 billion pieces of mail each year. And to reach every mailbox in every community, in every state, the department employed a work force of some 500,000 employees.

By 1971, when postal reorganization created the United States Postal Service, mail volume had almost doubled, and the work force had grown to 741,000 career employees. It was apparent that more than just ZIP codes and the mechanization of operations were needed to cope with increasing mail volume.

During the last half of his 42-year career, Thoman saw the volume of mail increase again by 100 percent but, more importantly, witnessed dramatic new changes in postal equipment that increased efficiency and reduced the number of mailpiece handlings.



By 1984, optical character readers installed in major mail processing centers each were processing more than 6,200 pieces of mail per work hour, compared to the 1,750 pieces per work hour processed by Multi-Position Letter Sorting Machines.



4th Generation

That's me, Deborah (Thoman) Engaldo. I began my postal career in 1980 as a distribution clerk in the Iowa City Post Office before transferring to Lakeside in 1982. In 1990, I was selected as a Delivery Service Analyst for the San Diego Division and, in 1992, became a Customer Service Supervisor for the Lakeside office. The greatest operational change I've seen take place in my 15 years with the Postal Service has been the recent delivery point sequencing of mail, as it's prepared for letter carriers. There has also been a much-needed shift toward customer service, and I am able to make changes if something needs to be corrected.

My brother, Bill Thoman, got a one-year jump on me, beginning his postal career in 1979 as a mail handler in Cedar Rapids, Iowa. One great advantage Bill has in working nights is his ability to enjoy, and participate in, more of his childrens' early development and education. Many working parents don't have that opportunity.

Continuing the tradition

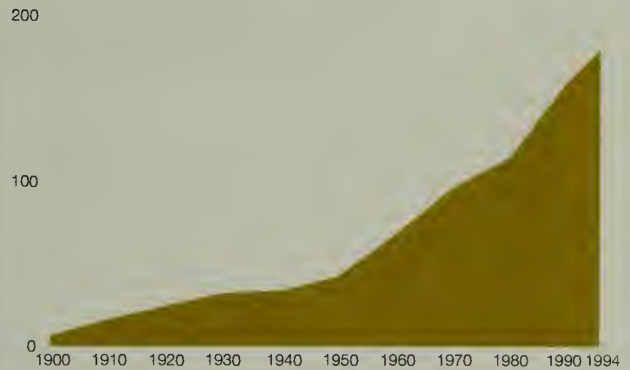
Today, a new generation of equipment is changing the way mail is processed and prepared for delivery. The resulting improvements in efficiency have helped the Postal Service meet the challenges of handling and delivering an annual mail volume that has grown from 106 billion pieces to more than 177 billion pieces since Deborah Thoman Engaldo joined the Postal Service in 1980.

With approximately 40 percent of its automated equipment in place, the Postal Service will continue to fine-tune its work force and organizational structure to meet the demands of processing record volumes of mail in future years.

To help achieve greater efficiency and lower operating costs, the Postal Service has invested about \$2.6 billion since 1987 for capital equipment to automate its mail processing and delivery point sequencing operations. Since 1991, approximately 4,000 optical character readers, delivery bar code sorters, and other pieces of equipment have been installed at postal facilities throughout the country.

Postal Service deployment of automation will continue over the next few years and — by the end of 1997 — approximately 12,000 pieces of automated sorting equipment will be in place.

Mail Volume
(billions of pieces)





5th Generation

Tony and Melissa, my son and daughter, may very well carry on the family tradition...and help the Postal Service meet its goals in the 21st century. In the years ahead, my children will see — and be a part of — important new changes that will take place faster and be more far reaching than anything we have seen before. The next generation of technological improvements is just around the corner, and they will provide the speed, timeliness, and accuracy of service that no competitor can match. We are a wonderful company and, as long as we continue to do a good job and meet customer needs, I feel very confident about our future.

Confident about our future

The United States Postal Service and mail are big business. If it were a private company, the Postal Service would be the nation's 11th largest corporation, with total revenues exceeding \$49 billion in 1994.

Each of the Postal Service's seven product lines would qualify as a Fortune 200 company on its own. Correspondence and transactions is a \$24.5 billion business. Business advertising is a \$12.7 billion business. Expedited delivery is a \$2.9 billion business and standard package delivery is a \$2 billion business. International mail is a \$1.4 billion business. Publications delivery is a \$1.7 billion business and, finally, retail is a \$3 billion business.

The Postal Service and the mailing industry built these businesses together, taking advantage of the technology and the products that customers need today and will need in the future.

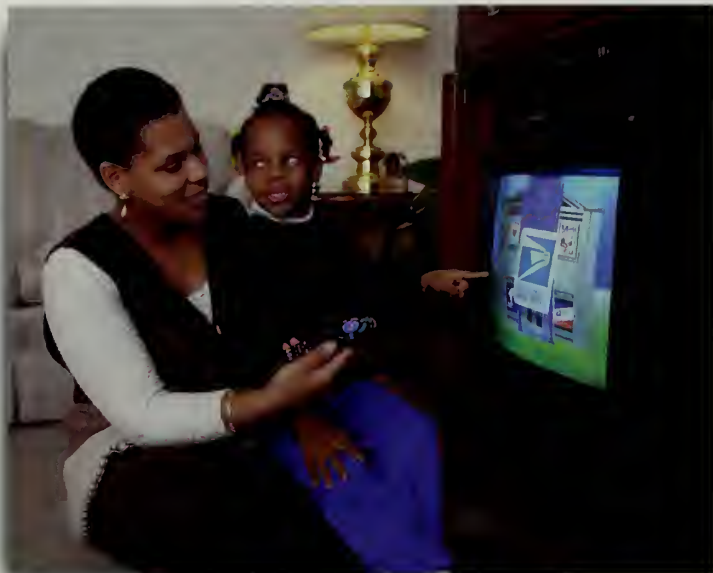
In fact, the next generation of improvements in our technology is just around the corner. These changes will let us automate virtually all the mail and will improve the speed and accuracy of our service. Well into the 21st century, our products will be recognized as the best value in America, and we will be the most effective and productive service in the federal government and the markets that we serve.

And, along the emerging information superhighway, the Postal Service has the equity and the experience in a generation of services that will be needed for electronic commerce, including privacy, security, and certification.

Operating Revenue (dollars in billions)



Because our future looks bright



Electronic commerce via interactive TV

As the Postal Service continues as the leader in the delivery of hard copy communications, it also looks at new opportunities to use its technology to create new products and services.

To meet this challenge, the Postal Service is focusing on three strategies: improving the existing mail flow by creating new mail services; identifying and creating new services in the arena of electronic commerce; and positioning the Postal Service to provide the next generation of communications products.

This commitment to meet changing customer needs and expectations is demonstrated by a number of current initiatives that the Postal Service is exploring and testing.

■ In the field of electronic commerce, the Postal Service is working with other federal agencies and businesses in the private sector to evaluate services such as certification, authentication, encryption, "electronic postmarks," and other value-added services. These services would be based on the Postal Service's established role as a trusted third party to maintain security and protect individual privacy.



Information readers and transmitters lift data from Business and Courtesy Reply cards

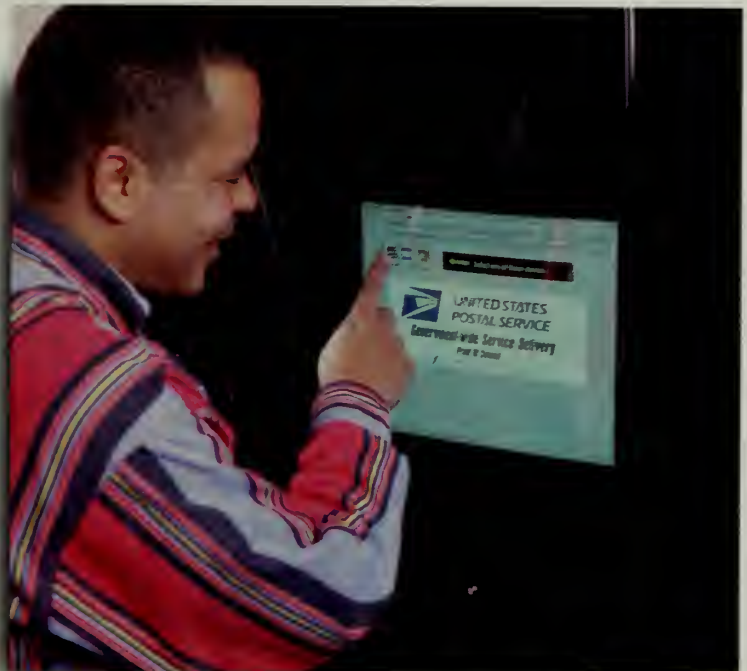
■ Business and Courtesy Reply card scanning is a service which reads customer information from reply cards at the originating post office. The data is electronically transmitted to the business, enabling it to act on the information within a matter of hours.

■ The Postal Service is testing the ability to read utility meters from postal vehicles as the letter carriers navigate the streets on their routes. One day, the Postal Service may routinely perform this service for utilities and use this revenue to help hold down the cost of postage.

■ As part of Vice President Al Gore's call to "reinvent government," the Postal Service is leading an interagency effort to electronically provide government information and services to the public. Working with federal, state, and local entities, the Postal Service has developed an interactive "citizens kiosk" that provides a single point of contact for government service. The kiosks ensure fast, easy, and universal access for all people.



On-board processor and transceiver collect data from utility meters



Government information provided electronically through interactive kiosks

Governors of the United States Postal Service



The Board of Governors, in the operations center of the new high-tech Network Operations Management System at Postal Service Headquarters in Washington, DC, includes (seated front to back): Sam Winters and Tirso del Junco, M.D. Standing, front to rear: Robert Setrakian, LeGree S. Daniels, Einar V. Dyhrkopp, Norma Pace, Bert H. Mackie, and Susan E. Alvarado. David F. Harris, standing beside Governor Alvarado, is full-time Secretary for the Board of Governors.

The Postal Service Board of Governors is an 11-member board comparable to the board of directors of a publicly owned corporation.

Nine of the governors are appointed by the president with the advice and consent of the Senate. They, in turn, select a Postmaster General, and those 10 select a Deputy Postmaster General to also serve on the board.

The board directs and controls expenditures of the Postal Service, reviews its practices, joins in long-range planning, and sets policies on all postal matters.

The board meets monthly in Washington, DC, and other cities across the United States.

Sam Winters, *Chairman of the Board of Governors*, was appointed to serve on the board in November 1991 for a term expiring in December 1999. He is a member of the law firm of Clark, Thomas & Winters, and a member of the board of directors of the First Interstate Bank of Texas.

Tirso del Junco, M.D., *Vice Chairman of the Board of Governors*, was appointed to the board in July 1988 for a term that expired in December 1991 and was reappointed to another full term expiring in December 2000. He is chairman of the board's Audit Committee, a Los Angeles surgeon, and serves as a member of the board of regents of the University of California.

Susan E. Alvarado was appointed in July 1988 to serve on the board for a term expiring in December 1996. She is a partner of Alvarado & Gerken, a government relations consulting firm.

LeGree S. Daniels was appointed to the board in August 1990 for a term expiring in December 1998. She is a member of the Penn State University Board of Advisors, Harrisburg campus, and formerly served as the U.S. Department of Education's Assistant Secretary for Civil Rights from 1987 to 1989.

Einar V. Dyhrkopp was appointed to the board on November 24, 1993, for a term expiring in December 2001. He is president and founder of Tecumseh International Corporation, a coal-marketing firm; a farmer; and is active in local banks.

Bert H. Mackie was appointed in December 1988 to be a governor for a term expiring in December 1997. He served as Chairman of the Board of Governors from January 1993 to January 1994. He is currently president of the Security National Bank of Enid, Oklahoma, as well as a member of its board of directors.

Norma Pace was appointed to the board in May 1987 for a term expiring in December 1994. She served as Chairman of the Board of Governors from January 1991 to January 1993. She is Senior Economic Advisor and Director of The WEFA Group. As provided by law, she will continue to serve on the board for up to one year or until a successor is appointed by the president.

Robert Setrakian was appointed to the board in December 1985 for a term expiring in December 1993. As provided by law, he continued to serve on the board until December 8, 1994. He served as Chairman of the Board of Governors from January 1989 to January 1991. He is president and chairman of the William Saroyan Foundation, director of F.N. Financial Corporation, and director of First Nationwide Bank.

Also members of the Board of Governors:

Marvin Runyon was named 70th Postmaster General of the United States in May 1992 by the nine presidentially appointed members of the Board of Governors. Prior to his appointment, he served as chairman of the Tennessee Valley Authority.

Michael S. Coughlin, a career postal employee, was appointed Deputy Postmaster General by the board in January 1987, after holding a series of top-level postal management positions. As a ranking official in the U.S. Postal Service, he is the chief of staff for the Postmaster General.

Changes during the year:

Crocker Nevin, whose second term as a governor expired in December 1992, continued to serve on the board beyond the expiration of his term, until November 23, 1993, as provided by law.

Officers of the United States Postal Service



At the center of the Union Station Postal Store in Washington, DC, are Deputy Postmaster General Michael S. Coughlin (left) and William J. Henderson, Chief Operating Officer and Executive Vice President.

David C. Bakke
Vice President, Area Operations
Southeast Area

William J. Brown
Vice President, Area Operations
Midwest Area

James A. Cohen
Judicial Officer

Michael S. Coughlin
Deputy Postmaster General

William J. Dowling
Vice President
Engineering

Mary S. Elcano
Senior Vice President and
General Counsel

Nancy L. George
Vice President, Area Operations
Northeast Area

William J. Good
Vice President, Area Operations
Great Lakes Area

Robert F. Harris *
Vice President
Diversity Development

William J. Henderson
Chief Operating Officer and
Executive Vice President

Suzanne J. Henry **
Vice President
Employee Relations

Gene R. Howard
Vice President, Area Operations
Pacific Area

Kenneth J. Hunter
Chief Postal Inspector

Allen R. Kane
Vice President
Operations Support

John F. Kelly
Vice President, Area Operations
New York Metro Area

Charles K. Kernan
Vice President, Area Operations
Southwest Area

Norman E. Lorentz
Vice President
Quality

Joseph J. Mahon, Jr.
Vice President
Labor Relations

Henry A. Pankey
Vice President, Area Operations
Mid-Atlantic Area

M. Richard Porras
Vice President
Controller

Darrah C. Porter
Vice President
Purchasing

Diane M. Regan
Vice President
Operations Redesign

Robert A. F. Reisner
Vice President
Technology Applications

Michael J. Riley
Chief Financial Officer and
Senior Vice President

Ann McK. Robinson
Vice President and
Consumer Advocate

Marvin Runyon
Postmaster General and
Chief Executive Officer

Loren E. Smith
Chief Marketing Officer and
Senior Vice President

Gail G. Sonnenberg
Vice President
Marketing Systems

Larry M. Speakes
Vice President
Corporate Relations

Jon Steele
Vice President, Area Operations
Allegheny Area

Rudolph K. Umscheid
Vice President
Facilities

Craig G. Wade
Vice President, Area Operations
Western Area

James C. Walton
Vice President
Workforce Planning and
Service Management

John R. Wargo
Vice President
Sales

Richard D. Weirich
Vice President
Information Systems

Open
Vice President
Product Management

Open
Vice President
Legislative Affairs

* Served as Vice President, Legislative Affairs, until December 1, 1994.

** Named Manager, William F. Bolger Management Academy, effective December 1, 1994.

Financial Statements

The final numbers for fiscal year 1994 show we beat one of the toughest, most aggressive budgets in our history...and we beat it by a wide margin.

Although we ended the year with a net loss of \$914 million, that is \$430 million less than our expected loss of \$1.344 billion. Our results for the year were significantly improved by management's aggressive actions in lowering workers' compensation expenses by reducing the number of employees on the workers' compensation rolls. The \$327 million fiscal year 1994 expense decreased from fiscal year 1993 by more than \$600 million.

Certainly, there is no such thing as a good loss. But every postal employee should take great pride in our ability to pull together to meet and surpass a goal that many thought was unattainable.

Our overall volume of 177 billion pieces grew 3.4 percent, or 5.8 billion pieces, over last year. This was driven by a 5.5 percent growth in third-class mail and a 2.4 percent growth rate in First-Class Mail volume.



*Michael J. Riley, Chief Financial Officer
and Senior Vice President*

Operating revenue was \$49.4 billion, an increase of \$1.8 billion over 1993. This represents a solid 3.8 percent growth over last year, despite a \$329 million shortfall in funding provided by Congress for processing and delivery of nonprofit mail.

Operating expenses were \$48.5 billion and exceeded the budget by \$71 million, or 0.1 percent. Compared to last year, expenses were up 4.6 percent.

In summary, our financial performance for the year — along with the continuing growth in mail volume and operating revenue — forms a strong foundation for achieving our financial and service goals for fiscal year 1995.

Financial and Operating Highlights

	Year Ended Sept. 30, 1994	Year Ended Sept. 30, 1993	Year Ended Sept. 30, 1992	Year Ended Sept. 30, 1991	Year Ended Sept. 30, 1990
Pieces of mail (millions)	177,062	171,220	166,443	165,851	166,301
Percent change	3.4	2.9	0.4	-0.3	2.9
<i>(dollars in millions)</i>					
Revenue from operations	\$49,252	\$47,418	\$46,151	\$43,323	\$39,201
Percent change	3.9	2.7	6.5	10.5	3.2
Public service appropriation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue forgone appropriation*	\$ 131	\$ 164	\$ 545	\$ 562	\$ 453
Percent change	-20.1	-69.9	-3.0	24.1	3.9
Total operating expenses****	\$48,455	\$46,321	\$45,653	\$43,291	\$40,490
Percent change****	4.6	1.5	5.5	6.9	5.5
Interest expense on unfunded retirement liabilities****	(\$ 1,336)	(\$ 1,346)	(\$ 1,269)	—	—
Other interest expense, net of interest income	(\$ 506)	(\$ 286)	(\$ 310)	(\$ 253)	(\$ 38)
(Loss) income, before retroactive assessments and extraordinary item	(\$ 914)	(\$ 371)	(\$ 536)	\$ 341	(\$ 874)
Retroactive assessment OBRA 1990	—	—	—	(\$ 1,810)	—
Retroactive interest assessment OBRA 1993	—	(\$ 857)	—	—	—
Extraordinary item — debt refinancing premium	—	(\$ 537)	—	—	—
Net loss	<u>(\$ 914)</u>	<u>(\$ 1,765)</u>	<u>(\$ 536)</u>	<u>(\$ 1,469)</u>	<u>(\$ 874)</u>
Fixed assets (net of depreciation)**	\$16,220	\$15,535	\$14,696	\$13,109	\$11,523
Percent change	4.4	5.7	12.1	13.8	11.5
Net capital deficiency	(\$ 5,962)	(\$ 5,048)	(\$ 3,283)	(\$ 2,747)	(\$ 1,278)
<i>(in units indicated)</i>					
U.S. resident population July 1 estimate (in millions)***	260.7	257.9	253.6	250.9	248.2
Percent change	1.1	1.7	1.1	1.1	1.0
Pieces of mail per capita	679	664	656	661	670
Percent change	2.3	1.2	-0.8	-1.3	1.8
Operating revenue per capita	\$ 188.95	\$ 183.86	\$ 181.98	\$ 172.67	\$ 157.94
Percent change	2.8	1.0	5.4	9.3	2.2
Operating expense per piece of mail****	27.37¢	27.05¢	27.43¢	26.10¢	24.35¢
Percent change****	1.2	-1.4	5.1	7.2	2.6
Operating revenue per piece of mail	27.82¢	27.69¢	27.73¢	26.12¢	23.57¢
Percent change	0.4	-0.1	6.2	10.8	0.3
Net loss per piece of mail	(0.52¢)	(1.03¢)	(0.32¢)	(0.89¢)	(0.53¢)
Career employees	728,944	691,723	725,290	748,961	760,668
Percent change	5.4	-4.6	-3.2	-1.5	-2.2

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act, as amended by the Revenue Forgone Reform Act of 1993.

** Fiscal Year 1990 - 1991 data recast to include construction in progress.

*** 1990 data recast to reflect 1990 census information.

**** Beginning in 1992, interest on unfunded liabilities is presented separately. Such amounts for the prior years are included in the total operating expenses. Prior years are not comparable.

Financial Statements

Balance Sheets

	September 30,	
	1994	1993
	(dollars in millions)	
Assets		
Current assets		
Cash and cash equivalents	\$ 1,418.8	\$ 1,473.6
U.S. Government securities, at cost which approximates current value	1.7	1,748.8
Receivables		
Foreign countries	635.0	561.1
U.S. Government	96.6	108.9
Consignment	31.1	103.3
Other	204.4	150.4
	<u>967.1</u>	<u>923.7</u>
Less allowances	86.0	58.3
Total receivables, net	<u>881.1</u>	<u>865.4</u>
Supplies, advances, and prepayments	<u>381.4</u>	<u>390.3</u>
Total current assets	<u>2,683.0</u>	<u>4,478.1</u>
Other assets, principally revenue forgone appropriations receivable — Note 5	266.0	202.5
Property and equipment, at cost		
Buildings	11,279.5	9,970.5
Equipment	8,217.3	7,219.5
Land	1,900.5	1,715.2
	<u>21,397.3</u>	<u>18,905.2</u>
Less allowances for depreciation	<u>6,865.9</u>	<u>6,106.9</u>
	<u>14,531.4</u>	<u>12,798.3</u>
Construction in progress	1,425.6	2,503.5
Leasehold improvements, net of amortization	<u>262.9</u>	<u>232.7</u>
Total property and equipment, net	<u>16,219.9</u>	<u>15,534.5</u>
Deferred retirement costs — Note 4	<u>27,246.7</u>	<u>27,066.0</u>
	<u>\$ 46,415.6</u>	<u>\$ 47,281.1</u>

See accompanying notes to financial statements.

Generations

The Wymer-Lonsinger family

Nearly 100 years of postal tradition for the Wymer family began in 1897, when Fred J. Wymer (right) — great-grandfather of Tim Lonsinger (lower right) — launched a 45-year career as a letter carrier out of the Oak Park, Illinois, Post Office.

When Fred Wymer retired in 1942, his son, John P. Wymer (below), already had six years of service as a carrier.



the same Oak Park office. In 1944, John Wymer and his wife moved to Glendale, CA, where he later served as president of Branch 1983 of the National Association of Letter Carriers.

"One of the things my grandfather was most proud of was the campaign he chaired in 1953 to make the residents of Glendale more 'flag conscious'," says Tim Lonsinger. "He and his fellow carriers began a 'Display the Flag' campaign in May of that year and continued it up to the Fourth of July. They sold more than 5,000 flags."

"My mother, Patricia (Wymer) Lonsinger continued the tradition in Burbank, CA



in the early 1970s, and first worked on the old single-position letter sorting machines. She is now the general clerk for more than 500 Tour I employees at the Van Nuys, CA, Post Office.

As a member of the fourth postal generation in my family, I am living the 'American dream'," says Tim, who has been a letter carrier out of the North Hollywood, CA, Post Office for almost eight years. "I have a good job, a wife, two daughters, and a home."



Financial Statements

Balance Sheets

September 30,
1994 1993
(dollars in millions)

Liabilities and Net Capital Deficiency

Current liabilities

Compensation and benefits	\$ 4,433.5	\$ 3,933.7
Estimated prepaid postage	1,567.4	1,529.4
Payables and accrued expenses		
Foreign countries	832.9	714.4
U.S. Government	329.7	329.8
Other	1,119.7	697.1
Total payables and accrued expenses	<u>2,282.3</u>	<u>1,741.3</u>
Prepaid permit mail and box rentals	1,289.6	1,175.1
Outstanding postal money orders	831.5	698.2
Current portion of long-term debt	1,260.9	1,062.0
Total current liabilities	<u>11,665.2</u>	<u>10,139.7</u>

Long-term debt, less current portion

(current value of \$7,825.9 million in 1994 and \$9,534.8 million in 1993) — Note 6

7,726.7 8,686.3

Other liabilities

Amounts payable for retirement benefits —

 Note 4

26,013.6 25,915.3

Workers' compensation costs — Note 1

4,326.2 4,500.0

Retroactive assessments payable to

 the U.S. Government — Note 2

899.9 1,528.4

Employees' accumulated leave

1,513.6 1,398.1

Other

231.9 161.0

32,985.2 33,502.8

Commitments and contingencies —

Notes 7 and 8

Net capital deficiency

Capital contributions of the

 U.S. Government

3,033.9 3,034.1

Deficit since reorganization

(8,995.4) (8,081.8)

Total net capital deficiency

(5,961.5) (5,047.7)

\$ 46,415.6 \$ 47,281.1

See accompanying notes to financial statements.

Financial Statements
Statements of Operations and Changes
in Net Capital Deficiency

	Years ended September 30,	
	1994	1993
	<i>(dollars in millions)</i>	
Operating revenue — Note 5	\$ 49,383.4	\$ 47,582.0
Operating expenses		
Compensation and benefits — Notes 1, 3 and 4	39,608.8	38,447.7
Other	8,846.4	7,873.9
	<u>48,455.2</u>	<u>46,321.6</u>
Income from operations	928.2	1,260.4
Interest and investment income	193.4	404.2
Interest expense on unfunded retirement liabilities — Note 4	(1,336.4)	(1,345.9)
Interest expense on borrowings	(601.5)	(620.2)
Imputed interest on OBRA 1990 and OBRA 1993 retroactive assessments for employee benefits — Note 2	(97.3)	(69.9)
Loss before OBRA 1993 retroactive interest assessment and extraordinary item	(913.6)	(371.4)
OBRA 1993 retroactive interest assessment — Note 2	<u>—</u>	<u>(857.0)</u>
Loss before extraordinary item	(913.6)	(1,228.4)
Extraordinary item — debt refinancing premium — Note 6	<u>—</u>	<u>(536.5)</u>
Net loss	(913.6)	(1,764.9)
Net capital deficiency — beginning of year	(5,047.7)	(3,283.1)
Capital equipment transfers (to) from the U.S. Government	<u>(0.2)</u>	<u>0.3</u>
Net capital deficiency — end of year	<u>(\$ 5,961.5)</u>	<u>(\$ 5,047.7)</u>

See accompanying notes to financial statements.

Generations

The Villa family

The Villa family, the Postal Service, and the State of Arizona have grown together since 1912, when Rafael Robles Villa (right) first carried mail and supplies from Phoenix to Fort McDowell, near present day Scottsdale.

Today, his four great-grandsons carry on the postal tradition: Letter carriers Richard and Ronnie Villa deliver mail under the same desert sun, while clerks Ralph James and Rojelio Villa use high-tech machinery and computerized systems to process mail.

Grandfather Ralph Madrid Villa kept the tradition alive, becoming a mail handler in Phoenix. He retired in Sacramento, CA, in 1978, well after his own son — Ralph Yanez Villa —





had established his postal career as a Phoenix clerk in 1966. Pictured below are the three living generations of the Villa family (standing, left to right): Ralph J., Ronnie, Richard, and Rojelio Villa. Seated (left to right) are their father, Ralph Yanez Villa, and grandfather, Ralph M. Villa.



Financial Statements Statements of Cash Flows

Years ended September 30,
1994 1993
(dollars in millions)

Cash flows from operating activities:		
Net loss	(\$ 913.6)	(\$ 1,764.9)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Extraordinary item — debt refinancing premium	—	536.5
Depreciation and amortization	991.9	888.7
Loss (gain) on sales of investments, net	0.1	(166.0)
Loss on disposals of property and equipment, net	23.6	61.1
Increase in other assets, principally revenue forgone appropriations receivable	(63.5)	(41.7)
Increase in retirement costs, net of retirement benefits payable	—	(0.5)
Decrease in accrued restructuring costs	(92.4)	(891.4)
(Decrease) increase in workers' compensation costs	(173.8)	456.7
(Decrease) increase in retroactive assessments payable to the U.S. Government	(374.7)	548.9
Increase in employees' accumulated leave	115.5	72.8
Increase in other liabilities	70.9	82.0
Changes in current assets and liabilities:		
Increase in receivables, net	(15.7)	(80.5)
Decrease in supplies, advances and prepayments	8.9	3.0
Increase in compensation and benefits	163.6	408.0
Increase in estimated prepaid postage	38.0	28.4
Increase in payables and accrued expenses	633.4	370.8
Increase in prepaid permit mail and box rentals	114.5	129.7
Increase in outstanding postal money orders	133.3	65.5
Net cash provided by operating activities	660.0	707.1
Cash flows from investing activities:		
Purchase of U.S. Government securities	(10,450.0)	(47,069.5)
Proceeds from sale of U.S. Government securities	12,217.5	50,032.5
Purchase of property and equipment	(1,726.5)	(1,885.0)
Proceeds from sale of property and equipment	4.9	65.7
Net cash provided by investing activities	45.9	1,143.7
Cash flows from financing activities:		
Issuance of long-term debt	300.0	5,000.0
Payments on long-term debt	(1,060.7)	(5,712.3)
Net cash used in financing activities	(760.7)	(712.3)
Net (decrease) increase in cash and cash equivalents	(54.8)	1,138.5
Cash and cash equivalents at beginning of year	1,473.6	335.1
Cash and cash equivalents at end of year	\$ 1,418.8	\$ 1,473.6

See accompanying notes to financial statements.

Notes to Financial Statements

September 30, 1994 and 1993

1. Postal Reorganization and Accounting Policies

Postal Reorganization

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

Cash Equivalents

Cash equivalents include securities with maturities at date of purchase of 90 days or less.

Property and Equipment

Property and equipment are recorded at cost, including interest on funds borrowed to finance the construction of major capital additions. Such interest amounted to \$77.7 million in fiscal year 1994 and \$115.3 million in fiscal year 1993. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease period or their useful lives.

Estimated Prepaid Postage

Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

Compensation and Benefits

Amounts payable for compensation and benefits consist of current liabilities for costs related to current employees and postal annuitants. Such liabilities include those arising from current salaries and benefits earned but not yet paid, currently payable workers' compensation costs, unemployment costs, annuitants' health benefits payable and current portions of retirement liabilities. As a part of management's continuing evaluation of estimates required in the preparation of its financial statements, additional liabilities of approximately \$150 million were recorded in fiscal year 1993 to recognize increases in the estimated cost of personnel-related liabilities incurred prior to 1993.

Retirement Benefits

Amounts payable for retirement benefits reflect the net present value of the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the CSRS

Fund) arising from increases in basic pay granted by postal management to its employees and cost-of-living adjustments (COLAs) to postal annuitants based on postal service. Also included in this total for fiscal year 1993 is the net present value of an unfunded liability arising from the transfer of Civil Service Retirement System (CSRS) employees into the Federal Employees Retirement System (FERS). The liability arising from this transfer was deemed liquidated by OPM as of September 30, 1994 due to a reassessment of funding requirements. These liabilities are payable in equal amounts over a 30-year period, with the exception of COLAs, which are payable over 15 years. Amounts due and payable in future years are capitalized as deferred retirement costs and are subsequently amortized over periods of 30 and 15 years. The Postal Service's participation in the retirement plans is accounted for as participation in multi-employer plan arrangements. Accordingly, retiree benefits costs are expensed as incurred.

Post-Retirement Health Benefits

Retiree health benefits costs represent the Postal Service's obligation to pay a portion of the health insurance premiums of retirees (and their survivors) participating in the Federal Employees Health Benefits Program (FEHBP). The Postal Service's participation in the FEHBP is accounted for as participation in a multi-employer plan arrangement. Accordingly, retiree health benefits costs are expensed as incurred.

Workers' Compensation Costs

Workers' compensation costs are self-insured by the Postal Service and administered by the Department of Labor (DOL). Such costs, which include both medical and wage continuation costs, are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends and other factors. In fiscal year 1993, management adopted changes in the net discount rates used in determining the present value of estimated future workers' compensation payments. The net discount rate for compensation claims was increased to 3.0 percent from 2.7 percent; the net discount rate for medical claims was decreased to 0.1 percent from 1.1 percent. The net effect of the adoption of these rates was accounted for as a change in accounting estimate, and accordingly resulted in a net decrease of \$23.6 million in the fiscal year 1993 compensation and benefits expense. In management's opinion, these net discount rates better reflect the excess of future rates of return on postal investments over expected future inflation rates for each type of claim.

As a result of management actions taken to reduce the number of claimants on workers' compensation rolls, and improvements made in the Department of Labor's medical claims review systems, workers' compensation expense significantly decreased from \$945 million in 1993 to \$327 million in 1994. The 1994 expense of \$327 million was \$868 million better than plan due to an actual reduction in the long-term workers' compensation liability versus a budgeted increase in the liability. The total workers' compensation liability decreased by \$174 million from \$5,034 million at September 30, 1993, to \$4,860 million at September 30, 1994, due primarily to the successful implementation of workers' compensation claims management programs.

Research and Development Costs

Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to \$50.4 million in fiscal year 1994 and \$57.5 million in fiscal year 1993.

Current Values of Financial Instruments

Current values of investments in non-marketable U.S. Government securities are based on the current values of equivalent marketable U.S. Government securities. Current values of Postal Service debt obligations are based on the estimated cost to retire the debt utilizing current yields on equivalent U.S. Treasury obligations.

Supplies, Advances and Prepayments

Supplies, advances and prepayments are comprised primarily of supplies inventory, motor vehicles inventory, repairable parts inventory for mail processing equipment, and annual leave advances. Inventories are stated at the lower of average cost or market and amounted to \$176 million and \$169 million in 1994 and 1993, respectively.

Reclassifications

Certain reclassifications have been made to previously reported amounts in order to conform to the current year presentation.

2. Retroactive Assessments for Employee Benefits

Omnibus Budget Reconciliation Act of 1990

The Omnibus Budget Reconciliation Act (OBRA) of 1990, enacted in October 1990, extended the Postal Service's obligation to pay the employer's portion of annuitant COLAs (Note 4) and health benefits (Note 3). The OBRA of 1990 also assessed the Postal Service for retroactive amounts to be paid in five annual installments, beginning in fiscal year 1991, totaling \$2.14 billion. The assessment represents the employer's portion of annuitant COLAs and health benefits, previously paid by the U.S. Government, that the Postal Service would have paid had the provisions of the OBRA of 1990 been in effect from July 1, 1971, through September 30, 1986.

The retroactive assessments payable under the OBRA 1990, on a present value basis, are as follows (dollars in millions):

Fiscal Year	Health Benefits	COLAs	Total
1991	\$ 56.0	\$216.0	\$ 272.0
1992	47.0	266.0	313.0
1993	62.0	316.0	378.0
1994	56.0	416.0	472.0
1995	234.0	471.0	705.0
			<u>2,140.0</u>
Less amount representing imputed interest at 5 percent			329.9
Retroactive assessment for employee benefits expensed in 1991			1,810.1
Less installments paid through 1994			<u>1,138.7</u>
1995 installment classified as a current liability in compensation and benefits			<u>\$ 671.4</u>

Omnibus Budget Reconciliation Act of 1993

The OBRA of 1993, enacted in August 1993, obligated the Postal Service to pay interest on the retroactive assessments due under the OBRA of 1990. The interest assessment will be paid in three annual installments, beginning in fiscal year 1996, totaling \$1.041 billion. The assessment represents interest, at 5 percent, on the employers portion of annuitant COLAs and health benefits, previously paid by the U.S. Government, that the Postal Service would have paid had the provisions of the OBRA of 1990 been in effect from July 1, 1971, through September 30, 1986.

The amounts payable under the OBRA 1993, on a present value basis, are as follows (dollars in millions):

Fiscal Year	Health Benefits	COLAs	Total
1996	\$116.0	\$231.0	\$ 347.0
1997	116.0	231.0	347.0
1998	116.0	231.0	347.0
			<u>1,041.0</u>
Less amount representing imputed interest at 5 percent			184.0
Retroactive interest assessment expensed in 1993			857.0
Add amount of imputed interest expensed in 1994			<u>42.9</u>
Retroactive interest assessment classified as a noncurrent liability			<u>\$ 899.9</u>

3. Post-Retirement Health Benefit Programs

Career employees of the Postal Service are eligible to participate in the FEHBP, which is administered by the Office of Personnel Management (OPM), during their employment and also after retirement. Under the FEHBP, the Postal Service pays a portion of the health insurance premiums of participating employees, retirees and their survivors.

The OBRA of 1990 requires the Postal Service to pay the employer's share of health insurance premiums incurred through participation in the FEHBP for all employees retiring on or after July 1, 1971, and their survivors, with the exclusion of costs attributable to Federal civilian service prior to that date. Such costs amounted to \$519 million in fiscal year 1994 and \$510 million in fiscal year 1993 and are included in compensation and benefits expense.

As discussed in Note 2, the OBRA of 1990 also required the Postal Service to reimburse the U.S. Government for annuitants' health benefits costs paid prior to the enactment of the law.

4. Retirement Programs

Description of Plans

The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the CSRS, which provides a basic annuity and Medicare coverage. Substantially all employees hired prior to January 1, 1984, are covered by the CSRS. The Postal Service and each participating employee contribute an amount equal to 7 percent of the employee's basic pay to the Civil Service Retirement and Disability Fund (CSRS Fund) and also make Medicare contributions at the statutorily prescribed rate. The Postal Service makes no matching contributions to the Thrift Savings Plan for CSRS employees.

Employees hired between January 1, 1984, and January 1, 1987, were covered by the provisions of the Dual CSRS/Social Security System until January 1, 1987. Certain employees with prior government service continue to be covered by such provisions. The Postal Service contributes an amount equal to 7 percent of each employee's basic pay to the CSRS Fund. The employee contribution rate is 0.8 percent of basic pay. Both the Postal Service and the employee make contributions for Social Security and Medicare at the statutorily prescribed rates. The Postal Service makes no matching contributions to the Thrift Savings Plan for Dual CSRS/Social Security System employees.

Effective January 1, 1987, employees hired since January 1, 1984, except as noted above, are subject to the provisions of the Federal Employees Retirement System (FERS)

Act of 1986. In addition, employees hired prior to January 1, 1984, were able to elect participation in FERS during certain periods in fiscal years 1987 and 1988. FERS is a three-tier retirement system consisting of Social Security, a basic annuity plan and a thrift savings plan.

The Postal Service made contributions to the FERS basic annuity plan in an amount equal to 12.9 percent of each employee's basic pay in fiscal years 1994 and 1993. The employee contribution rate was 0.8 percent of basic pay in both years. Both the Postal Service and each employee contribute to Social Security and Medicare at the statutorily prescribed rates. In addition, the Postal Service is required to contribute a minimum of 1 percent per annum of the basic pay of FERS employees to the Thrift Savings Plan. Contributions by FERS employees to the Thrift Savings Plan are voluntary and are fully matched by the Postal Service up to 3 percent of basic pay and at a 50 percent rate between 3 percent and 5 percent of basic pay.

The number of employees enrolled in each of the retirement plans at the end of fiscal years 1994 and 1993 are as follows:

	1994	1993
CSRS	350,811	358,254
Dual CSRS/Social Security	14,658	14,267
FERS	362,339	317,915

Deferred Retirement Costs

Deferred retirement costs consist of the following unfunded liabilities (dollars in millions):

	1994	1993
CSRS basic pay increases	\$ 22,884.9	\$ 22,809.8
CSRS annuitants' COLAs	4,361.8	3,917.3
FERS	—	338.9
	<u>\$ 27,246.7</u>	<u>\$ 27,066.0</u>

Unfunded Liability – CSRS

Under the CSRS, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the CSRS Fund attributable to Postal Service employee-management agreements that authorize increases in employees' basic pay on which benefits payable from the CSRS Fund are computed. The estimated increase in the unfunded liability as determined by OPM is paid by the Postal Service in 30 equal annual installments with interest computed at 5 percent per annum. The first payment thereof is due at the end of the fiscal year in which an increase in the basic pay becomes effective.

The increases in the unfunded liability for retirement benefits pursuant to employee-management agreements under the CSRS in fiscal years 1994 and 1993 were \$930.6 million and \$731.5 million, respectively.

Unfunded Liability – Annuitants' COLAs

The OBRA of 1990 made the Postal Service liable, on a prospective basis, for the cost of COLAs granted to postal annuitants (and their survivors) retiring on or after July 1, 1971, with the exclusion of costs attributable to Federal civilian service prior to that date. The annual liability created by this law is determined by OPM and funded in equal annual installments over 15 years, with interest at 5 percent per annum. The increase in the unfunded liability for annuitants' COLAs was \$868.7 million in fiscal year 1994 and \$729.7 million in fiscal year 1993.

Unfunded Liability – FERS

The unfunded liability of the FERS basic annuity plan is related to costs associated with employees who transferred from the CSRS. This liability was determined by OPM, and was funded by the Postal Service through supplemental contributions over a 30-year period with interest computed at 7 percent per annum. In fiscal year 1989, OPM determined the initial supplemental liability under FERS attributable to Postal Service employees at September 30, 1988, to be \$400.0 million, with an annual payment of \$32.2 million due on September 30 of each year. During 1994, OPM determined that net assets available for benefits attributable to the Postal Service exceeded the accrued liability attributable to postal employees. Accordingly, OPM determined that no payment was due on September 30, 1994, and that the liability is considered to be fully amortized as of that date.

Future Minimum Payments

The estimated future minimum payments required to fund amounts payable for CSRS retirement benefits on September 30, 1994 are as follows (dollars in millions):

Fiscal Year	Amount
1995	\$ 2,595.4
1996	2,569.3
1997	2,541.2
1998	2,510.7
1999	2,505.0
Thereafter	<u>29,733.9</u>
	42,455.5
Less the portion classified as a current liability	1,233.1
Less amount representing interest	<u>15,208.8</u>
	<u>\$26,013.6</u>

Expense Components

Components of aggregate retirement expenses included in compensation and benefits for fiscal years 1994 and 1993 are shown below (dollars in millions).

	1994	1993
CSRS — regular	\$ 830.4	\$ 828.1
FERS — regular	1,230.0	1,093.0
FERS — Thrift Savings Plan	339.8	303.5
Dual CSRS/Social Security	33.5	31.1
Social Security	949.7	853.9
Amortization of unfunded liabilities:		
CSRS	855.5	794.6
Annuitant COLAs	424.2	372.7
FERS	—	8.0
	<u>\$ 4,663.1</u>	<u>\$ 4,284.9</u>

5. Revenue Forgone

Operating revenue includes reimbursements and accruals for revenue forgone. Revenue forgone results from charging lower rates for those mail categories which Congress has determined should be subsidized through tax dollars. Revenue forgone appropriations included in operating revenue in fiscal years 1994 and 1993 amounted to \$131 million and \$164 million, respectively.

On October 28, 1993, the Revenue Forgone Reform Act (Act) was enacted. The Act authorizes Congress to appropriate \$29 million annually through 2035, which will reimburse the Postal Service for earned but unpaid revenue forgone appropriations for 1991, 1992 and 1993, as well as for the cost of phasing out certain aspects of the revenue forgone program in fiscal years 1994 through 1998. In addition, should Congress fail to appropriate an amount authorized, the Act authorizes the Postal Service to adjust rates on the various classes of mail, so that the resulting increase in revenues will equal the amount Congress failed to appropriate.

The transitional appropriations authorized under the Act total \$1.218 billion. The present value of these future appropriations, calculated at 7 percent, is approximately \$390 million. Management has determined that the present value of the portion of the future appropriations related to unpaid amounts in fiscal years 1991 through 1994 is approximately \$265.3 million, including \$69.0 million recognized in income in 1994. This amount is recorded as a receivable at September 30, 1994. The receivable recorded at September 30, 1993, related to unpaid amounts at that date was \$198 million.

6. Long-Term Debt and Interest Costs

The Postal Reorganization Act, as amended by Public Law 101-227, authorizes the Postal Service to issue and sell obligations not to exceed \$15 billion outstanding at any one time. Net annual increases in outstanding obligations are limited to \$2 billion for the purpose of capital improvements and \$1 billion for operating expenses.

In fiscal year 1993, the Postal Service retired, prior to maturity, \$4,463.5 million of notes payable to the FFB. These notes had a weighted average interest rate of 8.76 percent. The Postal Service incurred a debt refinancing premium of \$536.5 million, which was recognized as an extraordinary item in fiscal year 1993. The funds for the retirement of the debt were obtained through the issuance of \$5.0 billion of new debt.

Annual maturities of outstanding debt for each of the next five years are (dollars in millions):

Fiscal Year	Amount
1995	\$ 1,260.9
1996	1,863.2
1997	660.1
1998	2,182.6
1999	85.2
Thereafter	2,935.6

Cash paid for interest was \$684.6 million in 1994 and \$750.4 million in 1993.

Long-term debt consists of the following (dollars in millions):

Interest		September 30,	
Rate (%)	Terms	1994	1993
Notes payable to the Federal Financing Bank (FFB):			
8.075	Payable \$32 million each year to May 31, 2000	\$ 192.0	\$ 224.0
7.800	Payable \$15 million each year to May 31, 2001	105.0	120.0
7.591	Payable \$50 million each year to June 1, 1997, and \$22.5 million due on June 1, 1998 (prepaid \$677.5 million in fiscal year 1993; original maturity was May 31, 2011)	172.5	222.5
8.474	Payable \$30 million each year to June 1, 1998 (prepaid \$420 million in fiscal year 1993; original maturity was May 31, 2012)	120.0	150.0
8.908	Payable \$35.4 million each year to June 1, 1998 (prepaid \$495.6 million in fiscal year 1993; original maturity was May 31, 2012)	141.6	177.0
9.074	Payable \$60 million each year to June 1, 1998 (prepaid \$840 million in fiscal year 1993; original maturity was May 31, 2012)	240.0	300.0
9.081	Payable \$36 million each year to May 31, 1996; \$12 million due June 2, 1997	84.0	120.0
8.768*	Payable \$24 million on June 2, 1997; payments of \$36 million each year on June 1, 1998-1999; and payments of \$36 million each year thereafter through May 31, 2001	168.0	168.0
8.488	Payable on October 2, 1995	800.0	800.0
7.786	Payable on September 30, 1998	450.0	450.0
6.618*	Payable \$800 million on October 2, 1995, and \$400 million on September 30, 1997	1,200.0	2,000.0
4.676	Payable on October 31, 1994	1,000.0	1,000.0
6.307	Payable on October 31, 1997; callable November 30, 1995	1,500.0	1,500.0
7.367	Payable on August 15, 2002; callable November 30, 1997	1,500.0	1,500.0
7.615	Payable on November 30, 2007; callable November 30, 1997	1,000.0	1,000.0
Variable**	Payable on November 15, 2024	300.0	—

Mortgage Notes Payable:

4.83 to	Maturing from fiscal years 1995 through 2004, secured by		
9.75	land, buildings and equipment with a carrying amount of \$80.2 million (aggregate annual installments approximate \$2.5 million)	14.5	16.8
		8,987.6	9,748.3
Less current portion		1,260.9	1,062.0
		<u>\$ 7,726.7</u>	<u>\$ 8,686.3</u>

* Weighted average interest rate.

** Variable rate of 4.637 percent as of September 30, 1994

7. Commitments

At September 30, 1994, the estimated cost to complete approved Postal Service capital projects in progress was approximately \$1.48 billion.

Total rental expense for the years ended September 30, 1994 and 1993 is summarized as follows (dollars in millions):

	1994	1993
Noncancellable real estate leases including related taxes	\$ 555.0	\$ 537.5
Facilities leased from General Services Administration subject to 120-day notice of cancellation	38.0	39.4
Equipment and other short-term rentals	<u>148.2</u>	<u>86.5</u>
	<u>\$ 741.2</u>	<u>\$ 663.4</u>

At September 30, 1994, the future minimum rentals for all noncancellable leases are as follows (dollars in millions):

Year	Total
1995	\$ 440.1
1996	360.1
1997	283.0
1998	217.5
1999	151.8
Thereafter	<u>514.5</u>
	<u>\$1,967.0</u>

Most of these leases contain renewal options for periods ranging from 3 to 20 years. Certain noncancellable real estate leases have options to purchase the facilities at prices specified in the leases.

8. Contingencies

Several equal employment opportunity, employee compensation, environmental and postal rate class action lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages, and suits and claims arising out of postal contracts.

In July 1993, the Merit Systems Protection Board (MSPB) ruled that the restructuring initiated in fiscal year 1992 constituted a reduction-in-force (RIF) as defined by the Code of Federal Regulations. As a result, MSPB found that preference eligible employees who were placed in lower graded positions had been denied their procedural and substantive rights. The Office of Personnel Management (OPM) intervened on behalf of the Postal Service to appeal the decision made by MSPB to the U.S. Court of Appeals. The appeal was pending at September 30, 1993. Management and General Counsel believed that it was probable that the outcome of OPM's appeal would be favorable to the Postal Service; accordingly, no contingency accrual was recorded in fiscal year 1993. In August 1994, the appeals before the U.S. Court of Appeals were withdrawn by the Department of Justice at the request of OPM. As a result, the Postal Service is in the process of complying with the Board's decision regarding preference eligible employees who were placed in lower graded positions.

Management has recorded a liability in fiscal year 1994 for estimated losses resulting from the impact of the Board's decisions, including the resolution of appeals that are currently pending. The liability is based upon compliance cost estimates, assumptions on the number of appeals that ultimately will be filed, and management's and General Counsel's evaluation of the probability that appeals filed by various employee groups will result in losses to the organization. Differences between the assumptions and evaluations made by management and ultimate settlement will impact the liability recorded, and be reflected in future period earnings.

As a part of management's continuing evaluation of estimates required in the preparation of its financial statements, additional liabilities of approximately \$80 million were recorded in fiscal year 1993 to recognize increases in the estimated cost of litigation and claims asserted prior to 1993.

In the opinion of management and General Counsel, adequate provision has been made for amounts which may become due under the suits, claims, and proceedings discussed in the preceding paragraphs.

**Board of Governors
United States Postal Service**

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 1994 and 1993, and the related statements of operations and changes in net capital deficiency and cash flows for the years then ended. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1994 and 1993, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst + Young LLP

Washington, DC
November 15, 1994

Financial History Summary

	1994	1993	1992	1991	1990
Statement of Operations	<i>(dollars in thousands)</i>				
Operating revenue	\$49,252,000	\$47,418,000	\$46,151,120	\$43,322,604	\$ 39,201,405
Public service appropriation	0	0	0	0	0
Revenue forgone appropriation	131,400	164,000	544,680	561,868	453,425
Total operating revenue	49,383,400	47,582,000	46,695,800	43,884,472	39,654,830
Compensation and benefits	39,608,800	38,447,700	37,122,030	36,076,230	34,214,093
Restructuring costs	—	129,000	1,010,000	—	—
Other expenses	8,846,400	7,744,900	7,520,848	7,214,553	6,275,791
Total operating expenses	48,455,200	46,321,600	45,652,878	43,290,783	40,489,884
Income (loss) from operations	928,200	1,260,400	1,042,922	593,689	(835,054)
Interest expense on unfunded retirement liabilities**	(1,336,400)	(1,345,900)	(1,268,991)	—	—
Imputed interest on retroactive assessment for employee benefits	(97,300)	(69,900)	(81,432)	(90,507)	—
Interest expense on borrowings, net of income	(408,100)	(216,000)	(228,961)	(161,654)	(38,524)
(Loss) income before retroactive assessments and extraordinary item	(913,600)	(371,400)	(536,462)	341,528	(873,578)
Retroactive assessments for employee benefits					
OBRA 1990	—	—	—	(1,810,142)	—
OBRA 1993	—	(857,000)	—	—	—
Loss before extraordinary item	(913,600)	(1,228,400)	(536,462)	(1,468,614)	(873,578)
Extraordinary item — debt refinancing premium	—	(536,500)	—	—	—
Net loss	(\$ 913,600)	(\$ 1,764,900)	(\$ 536,462)	(\$ 1,468,614)	(\$ 873,578)
Balance Sheets					
Assets					
Current assets	\$ 2,683,000	\$ 4,478,100	\$ 6,027,379	\$ 4,863,268	\$ 4,528,341
Property and equipment, deferred retirement costs, and other assets	43,732,600	42,803,000	41,637,331	38,402,182	32,976,222
Total assets	\$46,415,600	\$47,281,100	\$47,664,710	\$43,265,450	\$ 37,504,563
Liabilities					
Current liabilities*	\$11,665,200	\$10,139,700	\$ 9,484,223	\$ 7,400,104	\$ 6,289,805
Other liabilities*	32,985,200	33,502,800	32,290,309	30,473,907	25,824,894
Long-term debt	7,726,700	8,686,300	9,173,294	8,138,375	6,667,530
Net capital deficiency	(5,961,500)	(5,047,700)	(3,283,116)	(2,746,936)	(1,277,666)
Total liabilities and equity	\$46,415,600	\$47,281,100	\$47,664,710	\$43,265,450	\$ 37,504,563
Analyses of Changes in Net Capital Deficiency					
Beginning balance	(\$ 5,047,700)	(\$ 3,283,100)	(\$ 2,746,936)	(\$ 1,277,666)	(\$ 401,629)
Net loss	(913,600)	(1,764,900)	(536,462)	(1,468,614)	(873,578)
Capital equipment transfers	(200)	300	282	(656)	(2,459)
Ending balance	(\$ 5,961,500)	(\$ 5,047,700)	(\$ 3,283,116)	(\$ 2,746,936)	(\$ 1,277,666)

* Certain reclassifications have been made to 1992 amounts to conform to 1993 presentation. Prior years have not been restated due to immateriality.

** Beginning in 1992, interest on unfunded retirement liabilities is presented separately. Such amounts for the prior years are included in compensation and benefits. Prior years are not comparable.

Impact of Revenue Forgone Appropriation* on Revenues, Fiscal Year 1994

Classes of Service	Total Income of Service (dollars in millions)	Income from Revenues	Income from Appropriation	Appropriation as a Percentage of Income
First-Class Mail	\$29,395.3	\$29,395.3	none	none
Priority Mail	\$ 2,648.6	\$ 2,648.6	none	none
Express Mail	\$ 671.4	\$ 671.4	none	none
Mailgram	\$ 1.7	\$ 1.7	none	none
Second-Class Mail				
Within county	\$ 84.2	\$ 84.2	none	none
Outside county				
Nonprofit and classroom publications	\$ 284.1	\$ 284.1	none	none
Regular-rate publications	\$ 1,358.9	\$ 1,358.9	none	none
Fees	\$ 30.2	\$ 30.2	none	none
Total Second-Class Mail	\$ 1,757.4	\$ 1,757.4	none	none
Third-Class Mail				
Single-piece rate	\$ 201.5	\$ 201.5	none	none
Regular bulk rate	\$ 9,046.7	\$ 9,046.7	none	none
Nonprofit bulk rate	\$ 1,193.2	\$ 1,193.2	none	none
Fees	\$ 69.8	\$ 69.8	none	none
Total Third-Class Mail	\$10,511.2	\$10,511.2	none	none
Fourth-Class Mail				
Parcels (zone rate)	\$ 665.5	\$ 665.5	none	none
Bound printed matter	\$ 351.8	\$ 351.8	none	none
Special rate matter	\$ 291.7	\$ 291.7	none	none
Library materials	\$ 40.4	\$ 40.4	none	none
Fees	\$ 1.3	\$ 1.3	none	none
Total Fourth-Class Mail	\$ 1,350.7	\$ 1,350.7	none	none
Free mail for the blind and handicapped	\$ 61.6	\$ 0.0	\$ 61.6	100.00
Overseas absentee ballots	\$ 0.8	\$ 0.0	\$ 0.8	100.00
International Mail	\$ 1,410.1	\$ 1,410.1	none	none
Totals***	\$47,808.8	\$47,746.4	\$ 62.4*	0.1
Net impact of Revenue Forgone Reform Act of 1993			69.0**	
Revenue forgone recognized in 1994			\$131.4	

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act, as amended by the Revenue Forgone Reform Act of 1993.

** In 1993, Congress enacted legislation which altered certain aspects of the revenue forgone program and will reimburse the Postal Service for past amounts due — as well as prospective amounts to be earned through 1998 — over the next 42 years. In 1994, the Postal Service recorded a receivable of \$69 million to reflect the net impact of this legislation.

*** Totals may not add due to rounding.

Source of Income

	(dollars in millions)
Mail revenue	\$ 47,746
Special services	1,506
Government appropriations for free and reduced rate mail	131
Total operating revenue	49,383
Total operating expenses	48,455
Income from operations	928
Interest and investment income	193
Interest expense — borrowing	(602)
Interest expense — unfunded retirement liability	(1,336)
Imputed interest on retroactive assessment of employee benefits	(97)
Net loss	(\$ 914)

Analysis of Expenses, Fiscal Year 1994

	(in percent)
Personnel compensation	60.64
Personnel benefits	17.80
Interest on unfunded liabilities	2.65
Vehicle/building maintenance	0.83
Transportation	6.64
Supplies and services	3.20
Rent, communications	1.18
Utilities	0.22
Interest	1.38
Depreciation and write-offs	2.07
Other	3.39
Total	100.00

Generations The Spencer family

The Mar Vista Station husband and wife team of Darrell and Tracy Spencer (below) — both of whom started their careers nine years ago in Los Angeles, CA, as window clerks at the Sunset Station — trace their postal heritage back three generations, when Darrell's grandfather, William V. Spencer, started carrying mail in Los Angeles in the 1920s.

The tradition continued with Darrell's father, Charles A. Spencer, who served 17 years as a letter carrier working out of Wagners Station and also the Los Angeles Main Post Office.

At the same time, Tracy's father, Ferdinand E. DeJan Jr. (in uniform at right), joined the old Post Office Department when he was a teen-





ager and carried mail during the Second World War. That led to a 40-year postal career — 19 years as a letter carrier and 21 years in management — before he finally retired in 1989 as the Los Angeles Northwest Area Manager.

"The Postal Service has really improved over the years...and especially so with the most recent emphasis on customer service," says Darrell.

"We're proud to carry on our families' postal traditions...and we can't go anywhere without our fellow employees remembering our dads," adds Tracy. "It's a great feeling."

Analysis of Mail Volume, Fiscal Year 1994

	<i>(pieces in billions)</i>		
	1994	1993	% chg*
First-Class	94.38	92.17	2.4
Second-Class	10.23	10.31	(0.8)
Third-Class	69.40	65.77	5.5
Fourth-Class	0.87	0.74	17.0
U.S. Postal Service	0.45	0.54	(17.6)
International	0.86	0.91	(5.1)
All Other	0.88	0.78	13.2
Total Mail	<u>177.07</u>	<u>171.22</u>	3.4

* Percent change reflects unrounded volume data.

Percent of Total Volume by Class, Fiscal Year 1994

	<i>(in percent)</i>
First-Class	53.29
Second-Class	5.78
Third-Class	39.20
Fourth-Class	0.49
U.S. Postal Service	0.25
International	0.49
All Other	0.50
Total	<u>100.00</u>

Operating Statistics

	1994	1993	1992	1991	1990
	<i>(in thousands of units indicated)</i>				
First-Class					
Pieces, number	94,376,106	92,169,448	90,781,037	90,284,596	89,269,649
Weight, pounds	3,737,129	3,672,186	3,496,383	3,398,026	3,339,790
Revenue	\$29,395,327	\$28,827,885	\$28,296,035	\$26,648,534	\$24,023,323
Priority Mail					
Pieces, number	768,262	664,373	584,356	530,407	517,850
Weight, pounds	1,330,348	1,174,613	1,108,590	1,017,227	1,007,067
Revenue	\$ 2,648,570	\$ 2,299,663	\$ 2,070,830	\$ 1,764,601	\$ 1,554,656
Express Mail					
Pieces, number	56,193	52,380	53,176	57,968	58,582
Weight, pounds	64,793	60,942	63,208	107,158	112,451
Revenue	\$ 671,439	\$ 627,073	\$ 639,019	\$ 667,988	\$ 630,707
Mailgram					
Pieces, number	5,329	7,179	7,453	11,942	14,001
Revenue	\$ 1,687	\$ 7,057	\$ 7,675	\$ 7,452	\$ 8,477
Second-Class					
Pieces, number	10,227,654	10,306,091	10,318,584	10,399,202	10,680,469
Weight, pounds	4,088,202	4,040,511	3,830,429	4,014,545	4,233,113
Revenue	\$ 1,757,455	\$ 1,740,431	\$ 1,751,180	\$ 1,667,801	\$ 1,509,346
Third-Class					
Pieces, number	69,400,101	65,773,180	62,547,188	62,429,896	63,725,110
Weight, pounds	8,797,373	8,006,537	7,122,868	7,386,612	7,648,088
Revenue	\$10,511,198	\$ 9,816,731	\$ 9,490,179	\$ 8,956,031	\$ 8,082,377

Operating Statistics

	1994	1993	1992	1991	1990
<i>(in thousands of units indicated)</i>					
Fourth-Class					
Pieces, number	870,609	743,847	764,504	695,393	662,977
Weight, pounds	2,618,001	2,284,346	2,396,768	2,074,460	2,109,342
Revenue	\$ 1,350,704	\$ 1,183,372	\$ 1,186,360	\$ 1,000,945	\$ 919,540
International Surface					
Pieces, number	122,410	124,417	132,934	146,464	165,901
Weight, pounds	116,914	125,076	120,229	133,952	146,216
Revenue	\$ 204,255	\$ 210,895	\$ 206,602	\$ 221,439	\$ 222,123
International Air					
Pieces, number	737,964	782,604	656,319	646,338	632,364
Weight, pounds	122,655	119,857	107,733	102,077	102,397
Revenue	\$ 1,205,834	\$ 1,195,620	\$ 1,069,229	\$ 984,573	\$ 941,078
U.S. Postal Service					
Pieces, number	448,029	543,674	551,402	612,545	538,427
Weight, pounds	72,120	80,935	91,648	79,624	97,388
Free for the Blind					
Pieces, number	49,563	52,799	46,439	35,859	35,440
Weight, pounds	28,140	33,261	30,701	26,299	30,235
Totals*					
Pieces, number	177,062,220	171,219,994	166,443,391	165,850,610	166,300,770
Weight, pounds	20,975,674	19,598,264	18,368,556	18,339,980	18,826,087
Revenue	\$47,746,469	\$45,908,726	\$44,717,110	\$41,919,364	\$37,891,627

* Penalty and franked mail are included in their classes of mail.
Totals may not add due to rounding.

Operating Statistics

	1994	1993	1992	1991	1990
<i>(in thousands of units indicated)</i>					
Registry					
Number of articles (paid and free)	22,592	23,852	25,285	41,190	45,312
Revenue	\$ 120,277	\$ 130,358	\$ 130,977	\$ 147,250	\$ 173,725
Certified					
Number of pieces (paid and free)	234,776	237,079	219,388	209,033	191,032
Revenue	\$ 421,445	\$ 425,503	\$ 392,807	\$ 362,370	\$ 309,652
Insurance					
Number of articles (paid and free)	32,086	30,773	34,113	35,645	33,102
Revenue	\$ 53,266	\$ 52,020	\$ 56,151	\$ 54,234	\$ 47,250
Collection-On-Delivery					
Number of articles	5,537	6,802	8,256	8,690	9,926
Revenue	\$ 16,675	\$ 20,268	\$ 24,845	\$ 25,577	\$ 26,093
Special Delivery					
Number of articles (paid and free)	642	331	820	2,101	1,161
Revenue	\$ 4,960	\$ 2,409	\$ 5,530	\$ 14,441	\$ 6,345
Money Orders					
Number issued	196,685	186,404	177,584	162,453	155,141
Revenue	\$ 154,336	\$ 165,893	\$ 154,384	\$ 148,146	\$ 154,588
Other					
Box rent revenue	\$ 489,217	\$ 480,969	\$ 457,200	\$ 412,625	\$ 393,807
Stamped envelope revenue	\$ 17,211	\$ 18,154	\$ 18,147	\$ 12,955	\$ 25,181
Other revenue, net	\$ 228,134	\$ 213,850	\$ 193,969	\$ 225,642	\$ 173,137
Totals					
Special services revenue	\$ 1,505,521	\$ 1,509,424	\$ 1,434,010	\$ 1,403,240	\$ 1,309,778
Mail revenue	\$47,746,469	\$45,908,726	\$44,717,110	\$41,919,364	\$ 37,891,627
Operating revenue before appropriations	<u>\$49,251,990</u>	<u>\$47,418,150</u>	<u>\$46,151,120</u>	<u>\$43,322,604</u>	<u>\$ 39,201,405</u>

Operating Statistics

	1994	1993	1992	1991	1990
Employees					
Headquarters — L'Enfant Plaza	1,701	1,762	2,434	2,408	2,291
Headquarters — Field Support Units	4,117	4,157	5,663	5,715	5,691
Inspection Service (field)	4,308	4,181	4,324	4,316	4,259
Discontinued Operations	85	189	—	—	—
Field Career Employees					
Area Offices	1,262	1,062	—	—	—
Regional Offices	—	—	586	559	542
Postmasters/Installation Heads	26,803	25,304	26,496	27,100	26,995
Supervisors/Managers	34,616	31,936	43,185	43,801	43,458
Prof. Admin. Tech. Personnel	10,924	10,306	10,440	9,888	9,793
Clerks	265,294	257,147	268,049	280,918	290,380
Nurses	181	224	286	296	286
Mail Handlers	54,859	51,078	49,520	50,770	51,123
City Delivery Carriers	229,138	211,893	223,088	232,182	236,081
Motor Vehicle Operators	7,577	7,199	7,086	7,265	7,308
Rural Delivery Carriers & Substitutes					
on Unassigned Routes	45,049	43,694	43,283	42,876	42,252
Special Delivery Messengers	1,574	1,571	1,742	1,870	2,012
Bldg. & Equip. Maintenance Personnel	36,767	35,444	34,367	34,166	33,323
Vehicle Maintenance Personnel	4,689	4,576	4,741	4,831	4,874
Total Career Employees	<u>728,944</u>	<u>691,723</u>	<u>725,290</u>	<u>748,961</u>	<u>760,668</u>
Non-Career Employees					
Casuals	25,674	25,889	27,204	25,666	26,829
Non-Bargaining Temporary	613	1,452	603	548	414
Rural Subs/RCA/RCR/AUX	46,589	44,456	43,830	44,020	43,373
PM Relief/Leave Replacements	12,683	12,087	12,415	12,198	11,979
Transitional Employees	37,542	42,272	9,732	—	—
Offices, Stations, and Branches					
Number of post offices	28,657	28,728	28,837	28,912	28,959
Number of stations and branches:					
Classified stations and branches	5,682	4,692	4,685	5,029	5,008
Contract stations and branches	3,424	4,367	4,443	4,427	4,397
Community post offices	1,609	1,605	1,630	1,617	1,703
Subtotal	<u>10,715</u>	<u>10,664</u>	<u>10,758</u>	<u>11,073</u>	<u>11,108</u>
Total offices, stations, and branches	<u>39,372</u>	<u>39,392</u>	<u>39,595</u>	<u>39,985</u>	<u>40,067</u>

Multi-generational postal families

These families answered the Postal Family Search and are part of the Postal Service's long, proud heritage.

The Adams Family of Grafton, WV
The Ainslie Family of Fly Creek, NY
The Alessi Family of Cape Neddick, ME
The Alexander Family of Morganton, GA
The Ally Family of New Orleans, LA
The Allyn Family of Stockton, CA
The Anderson Family of Lockport, IL
The Ankrum Family of St. Augustine, FL
The Armbruster Family of St. Louis, MO
The Armstrong Family of Cedar Springs, MI
The Ayers Family of Hannibal, MO
The Bailey Family of Arab, AL
The Balsom Family of Springfield, MA
The M. Barshay Family of Cleveland, OH
The N. Barshay Family of Medina, OH
The Bartosovsky Family of Carnegie, OK
The Beach Family of Portland, OR
The Bean Family of Sanbornville, NH
The Beebe Family of Prather, CA
The Belew Family of Poplar Bluff, MO
The Berg Family of Ferdinand, IN
The Bigornia Family of Chula Vista, CA
The Casara-Blake Family of Canovanas, PR
The Bodnar Family of Graytown, OH
The Boland Family of Clarks Summit, PA
The Bonos Family of Tamarac, FL
The Bovard Family of Warren, PA
The Brandon Family of Spanish Fork, UT
The Breaux Family of New Iberia, LA
The Brill Family of New Berlin, WI
The P. Brown Family of Phoenix, AZ
The R. Brown Family of New York, NY
The Bumgarner Family of Rogersville, MO
The Burden Family of Duncan, OK
The Buresh Family of Stanwood, MI
The Burkett Family of Batesburg, SC
The Bushman Family of Greendale, WI
The Campbell Family of Allegan, MI
The Cason Family of Douglasville, GA
The Castello Family of Nineveh, NY
The Chance Family of Gresham, OR
The Chapman Family of Chillicothe, OH
The Charlton Family of Norman, OK
The Chifo Family of Rowland Heights, CA
The Church Family of Fairmont, WV
The Clark Family of Charlton, NY
The Burt-Connor Family of Roseville, MI
The Cott Family of Orange, CA
The DeCoursey Family of Rochester, NY
The Harter-Crainelli Family of Plantation, FL
The Cutolo Family of Melville, NY
The Dabulskis Family of Pendleton, OR
The Dahlberg Family of New London, MN
The David Family of Lansing, MI
The P. Davis Family of San Marcos, CA
The W. Davis Family of Sparta, TN
The Dean Family of Alexis, IL
The DeCarlo Family of Centreville, VA
The Desimas Family of Long Beach, CA
The LeDesma Family of Gilbert, AZ
The Dever Family of Hot Springs, AR
The Deweese Family of South Shore, KY
The Dondero Family of Dorchester, NJ
The Downs Family of Desoto, MO
The Dulac Family of Carmel, ME
The Dunlap Family of Seattle, WA
The DuRussel Family of Munger, MI
The Edgcome Family of Knoxville, PA
The Ehler Family of Hummelstown, PA
The Ellis Family of Lancaster, NY
The Engaldo Family of Santee, CA
The Ereno Family of San Jose, CA
The Evans Family of Crown Point, IN
The Ewald Family of South Bend, IN
The Farrell Family of Cooksburg, PA
The Fedderke Family of Defiance, OH
The Fernandez Family of Rockledge, FL
The Ferrell Family of Haysville, KS
The Fersch Family of Pickerington, OH
The Filipp Family of Lake Jackson, TX
The Fisher Family of Fort Worth, TX
The Friend Family of Vancouver, WA
The Fronda Family of San Jose, CA
The Fuentes Family of San Jose, CA
The Gianoulis Family of Belmont, NH
The Gillis Family of Brewton, AL
The Gilmore Family of Kansas City, MO
The Gleave Family of Hatboro, PA
The Glimpse Family of Port Byron, NY
The Gonzales-De La O Family of Arleta, CA
The Gorbacz Family of South Bend, IN
The Grant Family of Ocala, FL
The Gregorich Family of Chardon, OH
The Gutapfel Family of Sunman, IN
The Hackett Family of Charleston, IL
The Haderthauer Family of Iselin, NJ
The Hall Family of Means, KY
The Hamilton Family of Blue Knob, PA
The Hanke Family of St. Charles, MO
The Barbara Hansen Family of Cashton, WI
The Bob Hansen Family of Rockford, MI
The Halford Family of East Point, FL
The D. Hawkins Family of Mora, MN
The J. Hawkins Family of Fresno, CA
The Heard Family of Eastanollee, GA
The Hedrick Family of Wapella, IL
The Helton Family of Huntsville, AL
The Herndon Family of Payette, ID
The Hines Family of Birmingham, AL
The Hissen Family of Minot, ND
The Hitesman Family of Glenns Ferry, ID
The Hobratch Family of Georgetown, TX
The Hofheinz Family of Tallahassee, FL
The Holloway Family of Ooltewah, TN
The Holt Family of Salt Lake City, UT
The Howe Family of Millbrook, IL
The Hupman Family of Cartersville, GA
The Jackson Family of Springfield, TN
The Larson-Jaspersen Family of Boulder City, NV
The B. Johnson Family of Salt Lake City, UT
The J. Johnson Family of Central Lake, MI
The G. Jones Family of Indianapolis, IN
The T. Jones Family of Midland, TX

The Jorgenson Family of American Fork, UT
 The Davis-Joyce Family of Charlotte, NC
 The Kahrs Family of Eudora, KS
 The Kelly Family of Newton, NC
 The Kilian Family of Macomb, MI
 The Klink Family of Twenty-nine Palms, CA
 The Knight Family of Canyon Country, CA
 The Gusciora-Kots Family of Wallington, NJ
 The Krifka Family of Kenosha, WI
 The Kucharczyk Family of Plantsville, CT
 The Kuhn Family of Boise, ID
 The Kunstek Family of Lakeland, FL
 The Kylo Family of Ft. Myers, FL
 The Firth-Larson Family of Venango, PA
 The Lasher Family of Hampton, KY
 The Layden Family of Moccasin, CA
 The Dotson-Leko Family of Milford, UT
 The Lewis Family of Captiva, FL
 The Lilly Family of Beaver, WV
 The Little Family of Fayetteville, AR
 The Long Family of Bowling Green, KY
 The Wymer-Lonsinger Family of Saugus, CA
 The Lorenzo Family of Tampa, FL
 The Loughery Family of Shinnston, WV
 The Lucas Family of Redfield, AR
 The Manhan Family of Ladd, IL
 The Manning Family of Wilbraham, MA
 The Mapp Family of Chicago, IL
 The Marano Family of Lawrenceville, GA
 The Marr Family of Marion, CT
 The Marsh Family of Mullen, NE
 The L. Martin Family of Barwick, GA
 The W. Martin Family of Mena, AR
 The Maskara Family of Yonkers, NY
 The Massey Family of Concord, CA
 The D. Mathews Family of Pendleton, IN
 The G. Mathews Family of Idaho Falls, ID
 The W. Mathews Family of Anderson, IN
 The Maxwell Family of Orem, UT
 The May Family of Phoenix, AZ
 The McCarty Family of Vernal, UT
 The McClure Family of Bloomington, IN
 The McCluskey Family of Frewsburg, NY
 The McDonald Family of Cincinnati, OH
 The McGinty Family of Tallahassee, AL
 The Meneses Family of San Antonio, TX
 The Clifford-Merriam Family of Blossvale, NY
 The Moore Family of Vega, TX
 The Moreland Family of Auburn, IL
 The Morey Family of Vernon, CT
 The Moses Family of Brandon, FL
 The Musser Family of Phoenix City, AZ
 The Neville Family of Aliquippa, PA
 The Newberry Family of Cimarron, CO
 The Nichols Family of Everett, MA
 The Cucci-Nieves Family of Staten Island, NY
 The Nusbaum Family of Vaughnsville, OH
 The Oie Family of Oakdale, MN
 The Ostrander Family of Seneca, WI
 The Parish Family of Fremont, OH
 The Passamonte Family of Mt. Morris, NY
 The Patrick Family of Gaffney, SC
 The Perdew-Duncan Family of Woodbridge, VA
 The Plegge Family of Highland, MI
 The Porter Family of Yazoo City, MS

The Pratt Family of Sicklerville, NJ
 The Price Family of Lincoln, NE
 The Pruyn Family of Crystal Beach, FL
 The Radican Family of Indianapolis, IN
 The Rameo Family of Livonia, MI
 The J. Randazzo Family of Westland, MI
 The S. Randazzo Family of Springfield, PA
 The Randle Family of Martinsville, IN
 The Raymond Family of E. Hampstead, NH
 The Reisinger Family of Harleysville, PA
 The Richard Family of Hillsboro, MO
 The Ring Family of Centralia, IL
 The Rodgers Family of Ogden, IA
 The Rosa Family of Toa Baja, PR
 The Rupe Family of Kenyon, MN
 The Ruppel Family of Appleton, WI
 The Rusling Family of West Chester, PA
 The Rutland Family of Fitzpatrick, AL
 The Sain Family of Denver, NC
 The Samaniego Family of Santa Ana, CA
 The Sanders Family of Ft. Lauderdale, FL
 The Sarkkinen Family of Yacolt, WA
 The Schmidt Family of Chatharine, KS
 The Schnepf Family of Westchester, PA
 The Schreck Family of Bronx, NY
 The Schulte Family of Argyle, MO
 The Schwab Family of Willard, OH
 The Scott Family of Ft. Lauderdale, FL
 The Heck-Seitz Family of North Highlands, CA
 The Shaffer Family of New Paris, OH
 The Shatzel Family of San Jose, CA
 The Shaw Family of Vandalia, MO
 The Sill Family of Aubrey, TX
 The Sisti Family of New Hartford, NY
 The Smischney Family of Saum, MN
 The C. Smith Family of Hicksville, NY
 The K. Smith Family of Mifflinburg, PA
 The Spencer Family of Los Angeles, CA
 The Springstroh Family of Melbourne, FL
 The Sprosty Family of Cleveland, OH
 The Stallcup Family of Scotland, TX
 The Stephens Family of Ft. Worth, TX
 The Stewart Family of Glasgow, KY
 The Stolpe Family of Somersworth, NH
 The Strader Family of Colliers, WV
 The Strickland Family of Garner, NC
 The Stubblefield Family of Kennard, TX
 The Sundell Family of Mundelein, IL
 The Sutfin Family of Hornell, NY
 The Taress Family of Sheffield Lake, OH
 The Taylor Family of Aztec, NM
 The Thalison Family of Ionia, MI
 The M. Thompson Family of Elmwood, TN
 The R. Thompson Family of Holly Hill, FL
 The Tomlin Family of Orange, TX
 The Turner Family of Plainview, AR
 The Underwood Family of New Waverly, TX
 The Valla Family of Lehigh Acres, FL

The VanDyke Family of Greenville, NC
 The Villa Family of Phoenix, AZ
 The Vincke Family of Chesaning, MI
 The Vognsen Family of Shawnee, KS
 The Wallis Family of Muncy, PA
 The Walsh Family of Phoenix, AZ
 The Watkins Family of St. Augustine, FL
 The Way Family of Omaha, NE
 The Welch Family of Huntsville, AL
 The Weller Family of Davis, CA
 The Wells Family of Ft. Wayne, IN
 The Wesson Family of Gadsden, AL
 The Whelan Family of Lewiston, ME
 The Whipple Family of Farmington, NM
 The Whitaker Family of Moultrie, GA
 The A. White Family of Bolt, WV
 The K. White Family of West Valley City, UT
 The Wickersham Family of Augusta, OH
 The Wickline Family of Jackson, OH
 The Wildy Family of Brooklyn, NY
 The Wilkeson Family of South Bend, IN
 The N. Williams Family of Tampa, FL
 The V. Williams Family of Lerna, IL
 The Wilson Family of Starr, SC
 The Wynne Family of North Port, FL
 The Zentner Family of Sandy, UT
 The Zimmer Family of Port Richey, FL
 The Zimmerman Family of Ft. Washington, MD



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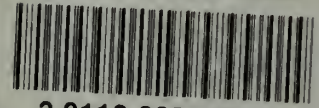
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